

**Alliance Foundation**

**&**

**United Methodist Homes**

*Research*

**Housing & Health Care**

The Alliance Foundation  
for Housing and Health Care,  
Inc.

(Alliance)

# The Alliance Foundation

## *Housing & Health Care*

### **Mission:**

The Alliance Foundation for Housing and Health Care, Inc. was established as a non-profit corporation to support and improve the sheltering, health care and other community outreach services delivered to older adults and other Americans with special needs.

To this end, it is our corporate goal to become an integral part of a community's health care delivery system by working with local hospitals, teaching universities and other health care providers. Our goal is to consistently provide the best possible value in quality health care, personal services and professional expertise, while at all times being responsive to the varied personal needs and desires of our residents and their families. Our mission is to enhance the lives of the elderly by providing the highest quality of care and services in well-operated communities designed to enhance and protect the quality of life, independence and dignity of the residents.

The Alliance Foundation hopes, over the long run, to be able to provide a better physical plant, better services, or lower cost care than could be obtained if the facilities were owned by proprietary chains that seek to earn a profit as their primary objective.

### **Introduction:**

The Alliance Foundation for Housing and Health Care, Inc. ("The Alliance Foundation"), headquartered at 10387 Main Street, Suite 200, Fairfax, Va., is a 501(c)(3), not-for-profit organization whose primary mission is the development, design, management, marketing and financing of senior housing products for proprietary and not-for-profit companies. The company was founded in 1994 and incorporated in the State of Texas.

The company established its corporate headquarters (a/k/a Home Office) in McLean, Va. in January 1994 and moved to its present location in December 1999. The Home Office was formed to perform the centralized executive and administrative functions of a system of affiliated nonprofit corporations which own and operate elder care (senior housing and long term care) facilities throughout the United States. Each of the operating corporations have the same core Board of Directors as The Alliance Foundation and the same executive officers.

By letter dated September 14, 1994, the Internal Revenue Service confirmed that the Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

The Alliance Foundation currently owns and operates a 210-unit skilled nursing home in the City of Wildwood, Sumter County, Florida providing health care services (skilled nursing, intermediate care, respite care, sub-acute care and rehabilitative therapy services) primarily to Medicaid, Medicare and Private Pay residents in the Northern Sumter County area. The facility includes a 36-bed sub-acute unit to provide residents more intensive care, which is a cost effective alternative to extended hospitalization. Services offered by this unit include intravenous therapy for administering medications (not usually provided in conventional nursing care), diabetic control and an on-site rehabilitation department. The facility also has a 60-bed specialized care unit for individuals with Alzheimer's or other dementia conditions. The facility has enjoyed a positive licensing history and survey since it opened in 1982, having received a "Superior" rating from the State of Florida Agency for Health Care Administration ("AHCA") fifteen (15) out of the past eighteen (18) years - including the results of its most recent survey.

Separately, The Alliance Foundation is the sole member of Alliance Foundation of Florida, Inc. ("AFF"), a Florida charitable corporation, formed in June, 1999. AFF was organized and will be operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. In furtherance of its charitable purposes, AFF will own and operate a variety of adult care, residential and assisted living, long term care and other congregate facilities throughout Florida that provide services to the elderly.

Fairfax Senior Living Company ("FSL") is a wholly owned, for-profit subsidiary of The Alliance Foundation which was created to provide senior housing and long term care management and consulting services to for-profit and not-for profit organizations.

In 1997, The Alliance Foundation entered into a "strategic alliance" with United Methodist Homes, Inc. ("UMH") to jointly acquire, develop, market, manage and own nursing homes, assisted living and retirement facilities. Headquartered in Shelton, Ct., UMH is also a 501(c)(3), not-for-profit organization, that currently owns and operates a 369-unit continuum of care community on its campus in Shelton, Ct.

At the present time, affiliates of The Alliance Foundation and UMH have a minority interest, each, in a 78-bed assisted living facility in Hartford, Ct. In addition, The Alliance Foundation and UMH are jointly developing a mixed use independent living / assisted living project in Amherst, Ma., a mixed use independent living / assisted living project in Stonington, Ct and have several other projects under development in New England. All of the projects currently under development or consideration are part of larger developments that will also include independent and congregate retirement housing, assisted living and/or skilled nursing care or will utilize a "market share strategy" that provides residents a full spectrum of senior living options.

One of the principal goals of the joint venture is to develop a regional network of facilities which will provide residents and the community-at-large access to a "continuum

of care” through participation in an integrated health care delivery network of local health care providers.

**Background:**

The Alliance Foundation brings a wealth of resources and experience to the development and management of retirement communities and long term care facilities. We provide a full spectrum of sophisticated consulting and management services through the direct hands-on involvement of our principals in every project. The organization provides skill in planning, development, marketing and management.

The Alliance Foundation provides services to the leading providers of:

**Continuing Care Retirement Communities**  
**Rental Retirement & Life Care Communities**  
**Congregate Living Facilities**  
**Assisted Living Facilities**  
**Nursing Homes and Sub-Acute Facilities**  
**Community Based Services**

Our organization has a provider orientation that covers a wide segment of the marketplace. The Alliance Foundation understands the role that senior living facilities have in meeting the overall objectives of a wide variety of providers.

**Non Profit Sponsors-** The professionals at The Alliance Foundation have vast experience with both non-affiliated and faith-based sponsors and service providers across the country. We count over 50 such providers as our clients.

**Proprietary Owners and Developers-** The Alliance Foundation has provided pre-development market demand and financial feasibility assistance, development and project consulting services to over 40 for-profit developers and owners. Principals have held positions of leadership in the National Association of Senior Living Industries (NASLI) which boasts a large number of proprietary senior service corporations among its membership.

**Hospitals and Health Care Systems-** The Alliance Foundation professionals particularly understand the motivation for Hospitals and Health Systems to expand their own continuum of care to include senior housing services. Several principals have held senior management positions with one of the largest health care providers in the Midwest and understand the need to develop long term care and senior services to compliment the provision of acute care services given the changing demographics in the country and the advent of managed care.

Principals of The Alliance Foundation have extensive expertise in senior services and the health care industry, with years of combined experience. We offer the benefit of having direct consulting, marketing and operations experience with numerous facilities whose total units and beds are indicated below:

**Senior housing management & development**

**6,150**

**Assisted Living facilities**

**1,120**

**Nursing Home Management**

**7,174**

**Consulting engagements**

**115**

Our professional staff enjoys a history of involvement with development, planning, consulting, marketing, and management of housing and health care projects. We have developed a solid track record and reputation based upon the quality and experience of our staff and upon our further ability to bring creative solutions to project problems which is ultimately measured by the success of our projects.

**Management:**

**ROBERT L. CLAPP - DIRECTOR; CHAIRMAN**

Bob Clapp has been a leading health care executive in the senior living industry for over 25 years. His expertise in long term care, senior housing operations, insurance and risk management, and managed care is widely acclaimed as is his over 20 years experience in multi-facility management. Mr. Clapp is currently serving as the President / C.E.O. of the United Methodist Homes, Inc. (UMH). United Methodist Homes operates a 39-acre campus on Long Hill Avenue in Shelton, Ct. providing independent housing for 200 residents of Wesley Heights Retirement Community, nursing, rehabilitative and sub acute services for 120 residents of Bishop Wicke Health and Rehabilitation Center, and assisted living and health care services at Crosby Commons, its 67-unit assisted living community.

Mr. Clapp served as President of The Alliance Foundation for Housing and Health Care, Inc. from 1994 until 1997, at which time he assumed the President / C.E.O. position at United Methodist Homes. Mr. Clapp continues to serve as a Director of The Alliance Foundation and was instrumental in initiating the affiliation of United Methodist Homes and The Alliance Foundation. For the previous five year period, Mr. Clapp served as President of Parkside Senior Services and Lutheran General Senior Services located in the Chicago, Illinois area. At Parkside, Mr. Clapp completed the development of three continuing care retirement communities, an award-winning renovation of an assisted living facility and a new skilled nursing facility. His Contract Management Division provided operations management and marketing services to non-profit and proprietary providers in ten (10) states; and his Consultancy Division completed market demand studies, certificates of need, and a myriad of health care consulting and operations auditing

services. His company established several adult day care centers including a unique multi generational center that has achieved international recognition. Additionally, Mr. Clapp supervised the development of a Senior HMO, a city-wide transportation system for seniors, and several Home Health Care agencies. For much of this period, Parkside was an affiliate of a large national Health Care System, and Mr. Clapp had responsibility as a key member of the system leadership for integration of acute care and long term care services as well as other system wide initiatives. During his tenure at Parkside, the company was ranked among the top five largest senior housing management companies in the nation.

Frequently quoted by national housing and health care publications, Bob served several terms on the Board of Licensure for Nursing Home Administrators for the State of Connecticut and most recently served as the Health Care Commissioner for the National Association of Senior Living Industries as well as the Executive Committee of the Board of Directors. He also served on the boards of the Ebenezer Society of Minneapolis, Minnesota and Westminster Village in Scottsdale Arizona. His professional memberships have included the American College of Health Care Administrators, the National Association of Health Lawyers and the American Association of Homes and Services for the Aged.

#### **ROBERT P. HOSTLER - DIRECTOR; PRESIDENT**

Bob Hostler has a long standing commitment to the senior living industry. He is currently serving as the Executive Director and President of The Alliance Foundation, having over 12 years experience in the development, management, finance and acquisition of senior housing, nursing and health care facilities.

As Executive Director and President of The Alliance Foundation, Mr. Hostler is responsible for all areas of the company's development and operations, including the development and implementation of all long range strategic planning for the firm, as well as assessing and coordinating participation in new business opportunities, negotiating joint venture agreements and developing new markets. The Alliance Foundation is currently developing two mixed use independent living / assisted living communities in New England (in conjunction with United Methodist Homes) and recently organized Alliance Foundation of Florida, Inc. ("AFF"), a Florida charitable corporation, which will own and operate a variety of adult care, residential and assisted living, long term care and other congregate facilities throughout Florida and provide services to the elderly.

Mr. Hostler came to his current position from previous responsibilities as Executive Vice President of CIL, another 501(c)(3) non-profit organization providing senior housing and health care services and a Principal in Amherst Senior Living Associates, a firm providing specialized consulting, development, management and marketing services to the senior living industry. Mr. Hostler was directly responsible for planning, directing and implementing all new business development activities for these organizations. Since the beginning of his business career, he has specialized in the creation

of financial service products, the structuring of equity placements, corporate finance activities, real estate acquisitions and investment banking.

Since 1987, he has been directly responsible for facilitating in excess of \$ 200,000,000 in acquisition / merger transactions. He has participated in all aspects of contract structure and negotiations including such issues as consulting agreements, development agreements, management contracts, letters of intent, purchase and sales agreements, feasibility studies, ancillary service contracts and other aspects of the seniors and long term care industry which relate to acquisition, development, financing and/or management of nursing homes and assisted living centers.

Professional affiliations have included the American Health Care Association, the American Senior Housing Association, the Assisted Living Federation of America, the Florida Health Care Association, the American Association of Homes and Services for the Aging and the Mortgage Bankers Association.

#### **STEVEN L. HOCHHAUSER - EXECUTIVE VICE PRESIDENT**

Steven Hochhauser has been involved in the management and delivery of health care services since 1972. A graduate of Springfield College in Massachusetts, Mr. Hochhauser has also earned advance degrees in Public Health Administration from the University of North Carolina; in Health Care Management from Florida International University as well as a certification in Long Term Care Management from the University of Connecticut.

Mr. Hochhauser began his career as Director of Special Programs for the Blind for the State of North Carolina, before commencing a 9 year tenure with the Veteran's Administration Medical Center system. Mr. Hochhauser worked as a Corrective Therapist, Clinical Supervisor, Director of Special Programs and as an Assistant to the Chief of Staff in several hospitals. Following these acute level experiences, Mr. Hochhauser earned his license as a nursing home administrator and ran such specialty niche nursing homes as the Greenery, a TBI rehabilitation facility and Braemoor West, Hillhaven's largest East Coast nursing home.

Working as Director of special programs for General Health Management in Connecticut, Mr. Hochhauser created one of the first prototype sub acute care units that stressed the concept of "continuum of care" by housing long term care, sub-acute care, outpatient rehab and adult day care all under one roof - a common concept in the 90's but foreign in the early 80's. Using this model, Mr. Hochhauser established the Rehabilitation Management Group (RMG), one of the first contract therapy companies in New England which incorporated all therapy disciplines and a staff Physician trained in rehabilitation as a contract team in a nursing home.

Following the sale of RMG, Mr. Hochhauser became the National Director of Utilization Management for Kemper Insurance. At Kemper, Mr. Hochhauser was directly



responsible for the design, installation and management of a system that tracked the therapy and rehabilitation progress of recipients of workers comp. benefits and treatment. Mr. Hochhauser left Kemper to accept the position of Chief Executive Officer of Interactive Health care, Inc., a wound care management / DME provider and expanded its base of operation from one state to seventeen and increased revenues by 300%. Most recently, Mr. Hochhauser served as Chief Operating Officer of Chrysalis Health Care Group, a sub-acute and therapy provider based in Ft. Lauderdale, Fla.

#### **DAVID M. BUSHEY - VICE PRESIDENT – FINANCIAL MANAGEMENT**

David Bushey is responsible for corporate accounting, implementation and oversight of all financial controls and systems, short term investments, taxes, insurance, analytical analysis of operating entities, preparing financial analyses for CON filings, and analyzing acquisition opportunities. His prior experience includes engagements as interim CFO for several diverse regional manufacturing and service companies. Mr. Bushey was appointed to these positions by the lender/venture capital groups who held significant equity/loan positions in these companies to develop and implement policies, procedures and financial controls necessary to bring the financial operations into compliance. His responsibilities included the initiation of control systems covering the corporate, accounting and inventory functions, forecasting production scheduling and materials purchasing and forecasting financial performance.

Mr. Bushey currently serves as president of Marsh Investment Corp., with whom he has been employed since 1993, and which is the investment advisor and managing member of several Virginia partnerships and limited liability companies.

Mr. Bushey was previously Vice President of IBG Development Corp, a Washington D.C. real estate development firm, where he served as Controller. IBG developed in excess of \$150,000,000 of urban real estate projects and managed the projects from land acquisition through lease-up and re-sale to institutional pension funds. Additional prior experience includes serving as Vice President and Controller for Barnes, Morris, and Pardoe, one of the Washington D.C. areas largest commercial real estate brokerage firms and served as Deputy Executive Director for the American Vocational Association, a 50,000 member trade association for vocational educators. Mr. Bushey practiced public accounting for several years and was Audit Supervisor on several Nursing Home operations. He holds an MBA degree in addition to his CPA certification.

#### **STEPHEN W. KEGLER - VICE PRESIDENT – PROJECT MANAGEMENT**

Steve Kegler is currently serving as Vice President of The Alliance Foundation and, since 1990, has served as Vice President of Corporate Development for UMH. Mr. Kegler also serves as Chief Executive Office of The Long Hill Company, a Connecticut for-profit corporation wholly owned by UMH. Mr. Kegler has over 17 years experience in operations management, construction planning, construction budgeting, structuring operating programs and financial management in the health care field. As Director of

Project Development, Mr. Kegler is responsible for coordinating all aspects of project development. These duties include site selection, planning and zoning filings, facility design, construction management oversight, bid specification for design/development and construction management, selection of design & construction team and the development of operating structures in new business ventures. He is currently managing the development of one assisted living facility under construction and three that will begin construction within a year.

Previously, Mr. Kegler was a support services consultant with Health Care and Retirement Corporation, one of the country's largest skilled nursing home developer / operators. He was responsible for developing and managing capital equipment replacement, renovations and construction projects in twenty skilled nursing facilities in six northeast and Mid-Atlantic States. Mr. Kegler served in similar capacities for Care Manors Inc. of Grand Rapids, Michigan and Geri Care Centers of America of Springfield, Massachusetts. Mr. Kegler has a Bachelor of Science degree from the University of Connecticut and has received certifications from the National Center for Housing Management in Housing Management. His professional affiliations have included the Connecticut Hospital Engineers Society, a voting membership in the health care division of the National Fire Protection Association, the Connecticut Assisted Living Association, National Center for Housing Management and the Connecticut Hospital Association.

#### **JIM S. PURDUM – BENEFITS DIRECTOR**

Jim S. Purdum serves as the Benefits Director for the Alliance Foundation and its affiliates and is also Secretary of the Corporation. Mr. Purdum is responsible for organizing, developing and implementing all group health and employee benefit programs, obtaining and monitoring all bonding, general and professional liability and worker's compensation and unemployment compensation coverage and monitoring the facility's compliance with same. He also reviews and negotiates all contracts for group purchasing of dietary, office and medical supplies and monitors quality and service levels at each facility.

Mr. Purdum was previously employed by Bache & Company (now Prudential Bache) from 1974 to 1976 and 1983 to 1985, by Clayton Brokerage Company from 1976 to 1983 and by Tiffany Trading Company from 1985 to 1988. During his tenure at these firms, he developed a strong background in insurance, employee benefits and commercial finance.

Mr. Purdum retired from the United States Army Reserves in 1986 and holds a Bachelor's Degree in Economics from Chapman University, Orange, Calif. in 1975.

## **RANDOLPH L. KERNON, II - REGIONAL VICE PRESIDENT - OPERATIONS**

Randolph L. Kernon serves as Regional Vice President for The Alliance Foundation and chairs the management team for The Alliance Foundation's Florida operations. He is responsible for the operations of all Florida facilities acquired, developed and/or operated by The Alliance Foundation and its affiliates. Mr. Kernon has over 25 years experience in operations management, construction planning, construction budgeting, structuring operating programs and the delivery of health care programs.

From 1996 to 1998, Mr. Kernon served as Administrator of Ocean View Nursing and Rehabilitation Center, a 238-skilled nursing facility in New Smyrna Beach, Florida, which, under his oversight, achieved three "Superior" licenses, returned to profitability and increased its patient census. From 1994 to 1996 he served as Executive Director of Lake Towers Continuing Care Retirement Center in Sun City, Florida, a 120-bed skilled nursing, 243-unit independent living and 70-unit personal care (assisted living) facility. From 1992 to 1994, Mr. Kernon served as Administrator of Woodlands Nursing Center ("Woodlands"), a 120-bed skilled nursing facility at which he achieved a "Superior" rating in 1993 and 1994. At the commencement of his employment at Woodlands, the facility had a "Conditional" rating from AHCA. From 1987 to 1992 he was the Administrator and part owner of Palma Ceia Adult Community in Tampa, Florida, and supervised its renovation from a 32-unit apartment complex to a 106-bed adult congregate living facility. Concurrently, from 1990 to 1992 Mr. Kernon was the Administrator of Brooksville Heights Adult Community in Brooksville, Florida, a 180-bed adult congregate living facility, and also served as a consultant in patient care and marketing to a 501(c)(3) not for profit organization which owned and operated a skilled nursing and assisted living facility in Tampa, Florida. Mr. Kernon was a part owner and Administrator of Su Casa, a 240-bed skilled nursing facility, from 1978 to 1981 and of Tampa Bay Retirement Center, a 116-bed adult congregate living facility, the construction of and lease up which he supervised from 1984 to 1987.

Mr. Kernon is licensed by the State of Florida as a Nursing Home Administrator and has been certified by the State of Florida Agency for Health Care Administration ("AHCA") as a Certified Preceptor. Under Florida law, any person seeking licensure as an Administrator of a skilled nursing facility must serve an internship of 1000 - 2000 hours (depending upon their education, degree and background experience) as an "Administrator-In-Training" under the supervision of a Certified Preceptor. Mr. Kernon has trained six "Administrators-In-Training". Mr. Kernon attended the University of South Florida, Tampa, Florida and earned his Associate Arts degree in Business Administration from Hillsborough Community College, Tampa, Florida, in 1975. Professional affiliations and board memberships have included the Advisory Board of Hospice, Hillsborough County, Florida, the Chamber of Commerce in Sun City and New Smyrna Beach, Florida, the Florida Board of Realtors, and the Florida Health Care Association. Mr. Kernon is also licensed as a real estate broker. Mr. Kernon has recently completed his term as vice president of the Florida Health Care Association, District XIV.

## **CATHERINE SHORT – ADMINISTRATOR**

Ms. Short currently serves as the Administrator of WECARE Nursing Center, Wildwood, Florida where she is responsible for organizing and administering all aspects of the facility's management.

Prior to joining Alliance, Ms. Short served as a Nursing Home Administrator for Mariner Post Acute Network from 1993 to 1999. As the Administrator of Mariner Health of Inverness, a 120-bed skilled nursing facility in Inverness, Fla., she developed and implemented systems allowing the facility to exceed budgetary expectations by \$80,000.00 during the first year of Medicare's Prospective Payment System. While Administrator of this facility, all fiscal, patient census and operations goals were achieved and exceeded every year. Under Ms. Short's administration, the facility successfully achieved superior ratings from the State Agency for Healthcare Administration for all annual surveys. During Ms. Short's term as Administrator, the facility achieved three deficiency free surveys including a nursing deficiency free survey the first year of "Final Enforcement, "1999". Ms. Short successfully guided the facility in the achievement of Joint Commission Accreditation. Prior to it's opening, Ms. Short was responsible for and coordinated construction efforts for opening the facility. Ms. Short was also tasked with developing community relations and marketing programs. To that end, she developed community services and marketing programs which led to successfully achieving a 100% patient census within the facility's first year of operation. In recognition of these efforts, Ms. Short was recognized by Mariner Post Acute and the recipient of company wide "Top 10 percent" annual awards for fiscal and operations management achievements.

From 1991 to 1993, Ms. Short served as a Nursing Home Administrator for National Healthcare Affiliates (NHA), a regional nursing home operator based in Buffalo, N.Y. At NHA, Ms. Short was Administrator of Eagle Crest, a 240 bed long-term and skilled nursing care facility located in Jacksonville, Fla. During her term as Administrator, she coordinated a \$200,000.00 major renovation of facility. Ms. Short was responsible for developing and implementing community relations and marketing programs which resulted in the facility achieving and maintaining a 96% patient census. Ms. Short directed and implemented cost control systems bringing the facility into fiscal budgetary compliance. Additionally, Ms. Short developed and implemented a program to reduce workman's compensation claims. The successful reduction of workman's comp claims led to all facility employees receiving a year end cash bonus for their efforts. Ms. Short also directed and implemented a review and overhaul of the facility's business office and procedures which resulted in reduced cash collections days outstanding from 54 days to 38 days. Also, Ms. Short directed and implemented aggressive billing and collection processes, including the appeal and pursuit of 2 year old (+) Medicaid claims through appeal processes. While at NHA, Ms. Short provided the leadership and guidance which led to the achievement of Superior ratings for each year of administration during her term at NHA.

Prior to beginning her career in Nursing Home Administration, Ms. Short served as a Hospital Services Officer, United States Air Force, from 1986 to 1991. Ms. Short was responsible for aero medical evacuation of military patients in peacetime and wartime operations. Her duties included coordination of airlift transport and supervision and administration of in-flight healthcare needs of patients during flight. Ms. Short served as a Control Center Operations Officer in Saudi Arabia during the Gulf War. She was responsible for overall patient evacuation and in-flight surgery coordination for over 200,000 military members. During the Gulf War operation, Ms. Short provided leadership and direction for approximately 1600 healthcare professional staff including flight surgeons, flight nurses, healthcare services officers and technicians.

Ms. Short is presently licensed by the State of Florida as a Nursing Home Administrator and serves as a Hospital Services Officer, United States Air Force Reserves. Ms. Short graduated Magna Cum Laude, Tampa University, 1986 and received her Bachelor of Science degree in Business Administration. She graduated with honors from the United States Air Force college of Hospital Administration, 1987. Ms. Short received an Associates Degree in Health Care Management from the Community College of the Air Force. Ms. Short currently serves on the Board of Directors for the Citrus County "Project Decide" Hospice. She is a Kiwanian member and served on the Board of Directors 1996 to 1998. Professional affiliations and board memberships have included: Medical Services Corps military society member; Reserve Officer's Association member; and, Member of the Citrus County Chamber of Commerce. Ms. Short is also a member of the Florida Health Care Association and served as past secretary and treasurer.

#### **EMILY HOLDER - QUALITY ASSURANCE/RISK MANAGEMENT DIRECTOR**

Ms. Holder is directly responsible for developing, implementing and supervising Alliance's risk management programs including human resource, clinical and legal risks. Additionally, Ms. Holder is responsible for developing, implementing and supervising the company's risk management and quality assurance educational programs for department supervisors and first line management. Additional responsibilities include safety management, workman's comp, and personnel management programs.

Prior to joining Alliance, Ms. Holder served as Regional Director of Quality Management, Mariner Post Acute Network, Atlanta, Ga. from 1996 to 2000. While serving as Regional Director, she was responsible for JCAHO Accreditation and successfully coached Mariner Post Acute's long term care facilities through Joint Commission Accreditation with 99% achieving a score of 92 or greater. In addition, Ms. Holder provided training in leadership, process improvement and risk management. As Regional Director of Quality Management, she was also in charge of directing and supervising Mariner Post Acute's Continuous Quality Improvement (CQI) programs that included directing facilities in the performance of root-cause analysis and sentinel event investigations.

In her previous position as Director Quality Assurance and Risk Management, National Insurance Services, Ms. Holder established and directed company wide risk management programs from 1995 to 1996. As Director Quality Assurance and Risk Management, Ms. Holder facilitated and directed work groups dealing with reorganization, program development and value added customer service. She also was responsible for the development and supervision of managed care training across all service lines.

From 1994 – 1995, Ms. Holder served as a Nursing Home Administrator at Broward Children's Center, a 36-bed pediatric nursing home located in Pompano Beach, Fla. Ms. Holder introduced Quality Improvement, Risk Management and team building programs and served on a work team with the State of Florida Agency for Health Care Administration (AHCA) to develop regulatory guidelines for pediatric care in the State of Florida.

From 1990 – 1994, Ms. Holder served as a Nursing Home Administrator and Quality Improvement / Risk Manager at Sabal Palms Health Care Center, a 222-bed skilled nursing facility in Largo, Fla. While serving in these capacities, Ms. Holder implemented and supervised both Risk Management and Quality Improvement programs, reduced workers compensation claims to the lowest in the company, and staffed and implemented a Human Resources Department and policies.

Professional and educational affiliations, accreditations and/or memberships include: Bachelor Degree in Science, Marketing and Management (Currently working on graduate studies in Human Resources); Licensed Health Care Risk Manager, 1993; National Certification in Healthcare Quality (CPHQ); Licensed Nursing Home Administrator, State of Florida; Registered Nurse, State of Florida; Active Member of Association for Quality and Participation (AQP); and Active Member in Florida Association of Risk Managers.

**Prior Health Care Experience:**

Alliance and its operating professionals have had extensive experience through the years managing, operating and owning nursing homes and senior living projects. This attached schedule indicates the facilities with which we have had such an involvement.

**NURSING HOMES AND ASSISTED LIVING**

<b><u>Facility Name</u></b>	<b><u>Location</u></b>	<b><u># of Beds</u></b>
Butterfield Trail Village	Fayetteville, AK.	60
Weirich Health Center	Scottsdale, AZ	60
Meadows West	Manchester, CT	160
Meadows East	Manchester, CT	120
Meadows South	Manchester, CT	240
Royal Crest	Meridan, CT	210
Park Manor	Waterbury, CT	160
G/C Farmington	Farmington, CT	120
Whitewood Manor	Waterbury, CT	180
Lakeview Manor	Cheshire, CT	210
Forestville Nursing Manor	Forestville, CT	120
Fairview Hall	East Haven, CT	195
Golden Hill	Milford, CT	120
Darien Convalescent Center	Darien, CT	120
Cedar Lane	Waterbury, CT	180
River Glen	Southbury, CT	120
Woodmere	Southington, CT	150
Brook Hollow	Wallingford, CT	180
Derby Convalescent Home	Derby, CT	120
Elm Hill Convalescent Home	Rocky Hill, CT	150
Meriden Nursing Home	Meriden, CT	120
Highland Acres Nursing Home	Winsted, CT	79
Seaside Nursing Home	Milford, CT	85
Roncalli Health Center	Bridgeport, CT	180
Lorraine Manor	Hartford, CT	270
Hillside Manor	Hartford, CT	180
Hilldale Nursing Home	Bloomfield, CT	90
South Windsor Convalescent Home	South Windsor, CT	120
Pope John Paul II	Danbury, CT	120
St. Joseph's Care Center	Willimantic, CT	120

John Knox Health Center	Orange City, FL	120
Orlando Towers Health Center	Orlando, FL	60
Oakwood Park	Tampa, FL	240
Tampa Bay Retirement Center	Tampa, FL	120
Greenbriar Skilled Nursing Center	Bradenton, FL	60
Lutheran General Health Center	Arlington Heights, IL	188
Good Samaritan Home	Metropolis, IL	85
Quabog Nursing Home	East Brookfield, MA	120
Springside Nursing Home	Pittsfield, MA	120
Heritage of Edina	Edina, MN	121
Ebenezer Hall	Minneapolis, MN	146
Ebenezer Ridges	Minneapolis, MN	104
Luther Field Hall	Minneapolis, MN	301
Caroline Center	Minneapolis, MN	197
Trinity Oaks Health Center	Salisbury, NC	105
Booth Memorial Medical Center	Flushing, NY	350
The Baptist Home	Rhinebeck, NY	120
Rolling Green Health Center	Greenville, SC	74
Westminster Towers	Rock Hill, SC	55
The Washington House	Alexandria, VA	58
The Virginian	Fairfax, VA	31
Tall Oaks	Reston, VA	120
The Hermitage at Cedarfield	Richmond, VA	125
Brandon Oaks	Roanoke, VA	85

## RETIREMENT COMMUNITIES

Butterfield Trail Village	Fayetteville, AK	228
Westminster Village	Scottsdale, AZ	250
Chatfield	West Hartford, CT	123
Duncaster	Bloomfield, CT	220
Sawgrass	Ponte Vedre Beach, FL	195
Orlando Lutheran Towers	Orlando, FL	244
Moorings Park	Naples, FL	



John Knox Village	Orange City, FL	492
Tiffany House	Ft. Lauderdale, FL	104
Village on the Isle	Venice, FL	230
Moorings of Arlington Heights	Arlington Heights, IL	291
Applewood at Amherst	Amherst, MA	104
Brookhaven at Lexington	Lexington, MA	203
Emanuel House	Brocton, MA	120
Kimball Farms	Lenox, MA	195
Lake Shore Drive	Ridgefield, MN	178
Lee Center	Hibbing, MN	95
Lee Square	Robinsdale, MN	124
Mighty Fortress Manor	Hinkley, MN	24
Osborne Retirement Apartments	Spring Lake Park, MN	60
Park Apartments	Minneapolis, MN	200
Park Avenue Retirement Residence	Minneapolis, MN	95
Rembrandt Retirement Community	Edina, MN	208
Tower Apt Residence	Minneapolis, MN	193
Wildewood Manor	Moundsview, MN	40
Woodlake Pointe	Ridgefield, MN	157
7500 York	Edina, MN	338
Trinity Oaks	Salisbury, NC	140
Rolling Green Village	Greenville, SC	245
Westminster Towers	Rock Hill, SC	153
Renaissance @ Sherman	Sherman, TX	174
The Washington House	Alexandria, VA	185
The Virginian	Fairfax, VA	200
The Hermitage at Cederfield	Richmond, VA	311
Brandon Oaks	Roanoke, VA	172

## CONSULTING ENGAGEMENTS

Bob Clapp, Bob Hostler & Steve Hochhauser have had extensive consulting experience within the health care and senior living industry. The following listing presents a representative sample of previous consulting engagements.

Allen Memorial Hospital	Waterloo, IA
Angelo Community Hospital	San Angelo, TX
Bayshore Gardens	Tampa, FL
Bayshore Towers	Tampa, FL
Baystate Medical Center	Springfield, MA
Beloit Hospital	Beloit, WI
Berkshire Medical Center	Pittsfield, MA
Calvary Lutheran Church	Woodruff, WI
Carle Clinic	Champaign, IL
Catholic Diocese of Norwich	Norwich, CT
Catholic Diocese of Bridgeport	Bridgeport, CT
Chester Village	Chester, CT
Church Homes, Inc	Hartford, CT
Cobbler's Corners Retirement Com.	Medford, MA
The Cradle	Evanston, IL
Dominican Priority	River Forest, IL
Duncaster	Bloomfield, CT
East Hill Woods	Southbury, CT
LinPro Corporation	Greenwich, CT
Litchfield Advisors	Lake Forest, IL
Lutheran Church/Canada Hills	Tucson, AZ
Lutheran General/Magnus Farms	Arlington Heights, IL
Lutheran Social Services, N.England	Worcester, MA
Lutheran Services, North Carolina	Salisbury, NC
Lutheran Social Services, Illinois	Des Plaines, IL

*In the opinion of Foley & Lardner, Bond Counsel, (i) under existing law and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 1999A Bonds is excluded from gross income for federal income tax purposes, and (ii) the Series 1999A Bonds and Series 1999B Bonds and the interest thereon are exempt from taxation under the laws of the State of Florida, except as to estate taxes and taxes on interest, income or profits on debt obligations owned by corporations, as defined in Chapter 220, Florida Statutes, as amended. Interest on the Series 1999B Bonds is included in gross income for federal income tax purposes. See "TAX MATTERS" herein for a description of certain federal minimum and other special taxes that may affect the tax treatment on the Series 1999 Bonds.*

**\$14,190,000**  
**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**HEALTH CARE FACILITIES REVENUE BONDS**  
**(WECARE NURSING CENTER PROJECT), SERIES 1999A**  
**and**  
**\$800,000**  
**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**TAXABLE HEALTH CARE FACILITIES REVENUE BONDS**  
**(WECARE NURSING CENTER PROJECT), SERIES 1999B**

Dated: Date of Delivery

Due: April 1, as shown below

The Series 1999A Bonds and the Series 1999B Bonds (collectively, the "Series 1999 Bonds") will be issued as limited obligations by the Sumter County Industrial Development Authority (the "Issuer") pursuant to a Trust Indenture dated as of March 1, 1999 between the Issuer and SunTrust Bank, Central Florida, National Association, as trustee, and only as fully registered bonds in authorized denominations of \$100,000 or integral multiples of \$5,000 in excess thereof and, when issued, will be registered initially in the name of Cede & Co. as sole registered owner of the Series 1999 Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York, as securities depository. The Series 1999 Bonds will be issued initially in book entry form only, and purchasers will not receive certificates representing their interest in Series 1999 Bonds so purchased. So long as Cede & Co. is the registered owner of the Series 1999 Bonds, as nominee of DTC, references herein to the registered owner shall mean Cede & Co., in such capacity, and shall not mean the purchasers of beneficial interests in the Series 1999 Bonds, and payments of principal, premium, if any, and interest on the Series 1999 Bonds will be made by the Trustee, as Paying Agent, directly to such owner. See "THE SERIES 1999 BONDS — Book-Entry Only System" herein. Interest on the Series 1999 Bonds will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 1999.

The Series 1999 Bonds will be payable from payments to be made by The Alliance Foundation for Housing and Health Care, Inc. (the "Borrower") pursuant to the Loan and Security Agreement dated as of March 1, 1999 between the Issuer and the Borrower and certain other moneys pledged therefor and from income from the temporary investment thereof, and shall be further secured by a Mortgage and Security Agreement dated as of March 1, 1999, as more fully described herein.

The Series 1999 Bonds will be subject to optional, extraordinary optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 1999 BONDS" herein.

THE SERIES 1999 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER AND WILL NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, SUMTER COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF SUMTER COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WILL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 1999 BONDS, AND THE SERIES 1999 BONDS WILL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE ISSUER, SUMTER COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF TO LEVY ANY TAXES WHATSOEVER THEREFOR OR MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE ISSUER HAS NO TAXING POWER.

There are risks associated with the purchase of the Series 1999 Bonds. For a discussion of certain of these risks, see "BONDHOLDERS' RISKS" herein.

**SERIES 1999A MATURITY SCHEDULE**

**\$2,980,000 — 8.00% Term Bonds Due April 1, 2014 Price 108.886 to yield 6.25%**

**\$11,210,000 — 6.75% Term Bonds Due April 1, 2029 Price 96.881 to yield 7.00%**

**SERIES 1999B MATURITY SCHEDULE**

**\$800,000 — 10.00% Term Bonds Due April 1, 2004 Price 98.092 to yield 10.50%**

The Series 1999 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of certain legal matters relating to the issuance of the Series 1999 Bonds by Foley & Lardner, Bond Counsel. Certain legal matters will be passed upon for the Issuer by Randall N. Thornton, Esq., Lake Panasoffkee, Florida, for the Borrower by Tavss, Fletcher, Maiden & King, P.C., Norfolk, Virginia, and Ross and Associates, P.A., Tampa, Florida, and for the Underwriter by Peck, Shaffer & Williams LLP, Columbus, Ohio. It is expected that the Series 1999 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about March 31, 1999, against payment therefor.

**GREENWICH PARTNERS, LLC**

**SALISBURY CAPITAL CORPORATION**  
Financial Advisor to the Underwriter

**BOOK-ENTRY ONLY  
NEW ISSUE**

**NONRAT**

*In the opinion of Foley & Lardner, Bond Counsel, (i) under existing law and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 1999A Bonds is excludable from gross income for federal income tax purposes and (ii) the Series 1999B Bonds and the Series 1999B Bonds and the interest thereon are exempt from taxation under the laws of the State of Florida, except as to estate taxes on interest, income or profits on debt obligations owned by corporations, as defined in Chapter 220, Florida Statutes, as amended. Interest on Series 1999B Bonds is included in gross income for federal income tax purposes. See "TAX MATTERS" herein for a description of certain federal minimum and other special taxes that may affect the tax treatment on the Series 1999 Bonds.*

**\$14,460,000\***

**VOLUSIA COUNTY HEALTH FACILITIES AUTHORITY  
HEALTH CARE FACILITIES REVENUE BONDS  
(INDIGO MANOR PROJECT), SERIES 1999A**

**\$915,000\***

**VOLUSIA COUNTY HEALTH FACILITIES AUTHORITY  
TAXABLE HEALTH CARE FACILITIES REVENUE BONDS  
(INDIGO MANOR PROJECT), SERIES 1999B**

**Dated: Date of Delivery**

**Due: December 1, as shown below**

The Series 1999 Bonds will be issued as limited obligations by the Volusia County Health Facilities Authority (the "Issuer") pursuant to a Trust Indenture dated as of December 1, 1999 between the Issuer and SunTrust Bank, Central Florida, National Association, as Bond Trustee, and only as to registered bonds without coupons in authorized denominations of \$100,000 or integral multiples of \$5,000 in excess thereof. The Series 1999 Bonds will be issued initially in book entry form only, and purchasers will not receive certificates representing their interest in Series 1999 Bonds so purchased. The Series 1999 Bonds, when issued, will be registered initially in the name of Cede & Co. as sole registered owner of the Series 1999 Bonds and nominee of The Depository Trust Company ("DTC"), New York, New York, as securities depository. So long as Cede & Co. is the registered owner of the Series 1999 Bonds, as nominee of DTC, references herein to the registered owner shall mean Cede & Co., in such capacity, and shall not mean the purchasers' beneficial interests in the Series 1999 Bonds, and payments of principal, premium, if any, and interest on the Series 1999 Bonds will be made by the Bond Trustee, as Paying Agent, directly to such owner. See "THE SERIES 1999 BONDS — Book-Entry Only System" herein. Interest on the Series 1999 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2000.

The Series 1999 Bonds will be payable from payments to be made by The Alliance Foundation of Florida, Inc. (the "Borrower") pursuant to the Loan and Security Agreement dated as of December 1, 1999 between the Issuer and the Borrower and certain other moneys pledged therefor and from income from the temporary investment thereof, and shall be further secured by a Mortgage and Security Agreement dated as of December 1, 1999, as more fully described herein.

The Series 1999 Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 1999 BONDS" herein.

THE SERIES 1999 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER AND WILL NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, VOLUSIA COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF VOLUSIA COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WILL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 1999 BONDS, AND THE SERIES 1999 BONDS WILL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE ISSUER, VOLUSIA COUNTY, FLORIDA, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF TO LEVY ANY TAXES WHATSOEVER THEREFOR OR MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE ISSUER HAS NO TAXING POWER.

*The Series 1999 Bonds are being sold pursuant to a limited offering. Sales of the Series 1999 Bonds are limited to "Qualified Institutional Buyers" as defined in Rule 144A(a)(1) of the Securities Act of 1933, as amended. The Series 1999 Bonds are speculative in nature, involve a high degree of risk and should be purchased only by, and are suitable investments only for, sophisticated investors who are able to evaluate and understand such risk and who can afford to assume such risk. See "BONDHOLDERS' RISKS" herein.*

*Beneficial ownership interests in the Series 1999 Bonds are not authorized in amounts less than the authorized denominations (as described above). This investment is not suitable for any investor who seeks to acquire it in any amount less than an authorized denomination.*

**MATURITY SCHEDULE\***

<b>\$14,460,000 —</b>	<b>% Series 1999A Term Bonds Due December 1, 2029 Yield</b>	<b>%</b>
<b>\$915,000 —</b>	<b>% Series 1999B Term Bonds Due December 1, 2003 Yield</b>	<b>%</b>

The Series 1999 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of certain legal matters relating to the issuance of the Series 1999 Bonds by Foley & Lardner, Bond Counsel. Certain legal matters will be passed upon for the Issuer by Smith, Hood, Perkins, Loucks, Stout & Orfinger, P.A., Daytona Beach, Florida, for the Borrower by its counsel, Murtha, Cullina, Richter and Pinney LLP, Hartford, Connecticut, and Ross and Associates, P.A., Tampa, Florida, and for the Underwriter by its counsel, Peck, Shaffer & Williams LLP, Columbus, Ohio. It is expected that the Series 1999 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about December 1, 1999, against payment therefor.

**GREENWICH PARTNERS, LLC**

**SALISBURY CAPITAL CORPORATION**

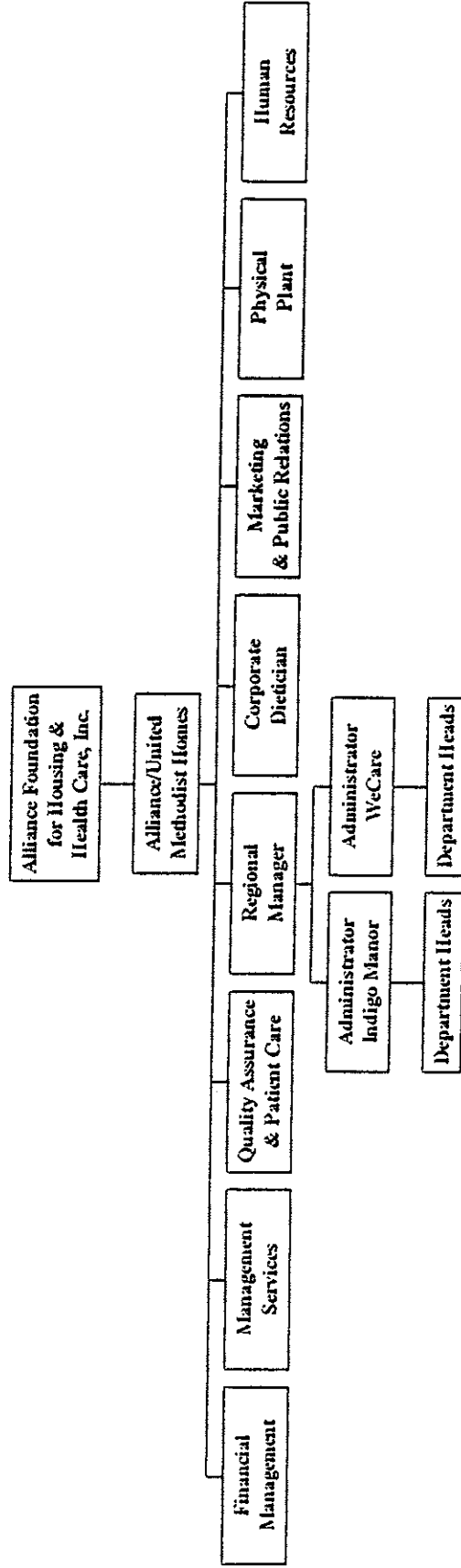
Financial Advisor to the Underwriter

The date of this Limited Offering Memorandum is \_\_\_\_\_, 1999

\*Preliminary, subject to change

This Preliminary Limited Offering Memorandum and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Limited Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

# Alliance - Florida Operations



The United Methodist Homes  
(UMH)

# **United Methodist Homes**

(FORMERLY UNITED METHODIST  
HOMES OF CONNECTICUT, INC.)

## **Mission:**

The mission of United Methodist Homes is "to offer elderly persons a community lifestyle dedicated to promoting their health, security, happiness and usefulness in long living by providing, on a not-for-profit basis, appropriate housing, medical, nursing and related facilities and services especially designed to meet their physical, social, psychological and spiritual needs."

## **Background:**

In the early 1920's, Methodist homes for the aged were started in Danbury and West Haven. When more capacity was needed, United Methodist Homes purchased land in Shelton and began operations in 1968. (See history attached).

On its 39-acre campus on Long Hill Avenue in Shelton, United Methodist Homes provides independent housing for 200 residents of the Wesley Heights retirement community and nursing and rehabilitative care for 120 residents of Wicke Health Center, a skilled nursing facility. Wesley Heights offers rental retirement housing consisting of 90-cottage units and 92-congregate apartments with a central dining room serving three daily meals. Both facilities operate at full capacity. United Methodist Homes enjoys an outstanding reputation as a friendly community providing well-managed services.

United Methodist Homes recently completed construction of Crosby Commons, a two-story, 65,000 square foot building consisting of 67 separate assisted living units. Crosby Commons is owned and operated by United Methodist Homes as a Managed Residential Community (MRC) as provided for under Connecticut's regulations for assisted living. The Long Hill Company, a wholly owned subsidiary of United Methodist Homes is a licensed Assisted Living Services Agency (ALSA) and provides various support services to residents of Crosby Commons.

United Methodist Homes serves people of all faiths. Of the current residents, approximately one-third are United Methodists, one-third are Roman Catholic and one-third are from a variety of other faiths. Two-thirds of the residents come from towns in Greater Bridgeport and the Lower Naugatuck Valley.

United Methodist Homes has an annual operating budget of approximately \$12 million. Sources of operating revenue are fees for service (47%), Medicaid/Medicare reimbursement (44%), donations (6%) and investment income (3%). The endowment fund is currently valued at \$12.0 million plus dedicated / pledged funds of several million dollars.

United Methodist Homes has a 21-member Board of Directors. There are thirteen business leaders, one physician, one attorney and five ministers on the Board.

### **Management:**

United Methodist Home's Corporate Management is comprised of a team of professionals experienced in the development and management of health care, housing and community service programs for the elderly. It is backed by staff specialists in marketing, public relations, consulting, finance, human resources, legal matters, health care and community based services.

The 219-member staff is organized into the following major departments: nursing, food service, support services (housekeeping, maintenance and security), rehabilitative services and finance. A management team, in conjunction with board committees, leads planning, budgeting, fundraising and operations.

The leader of United Methodist Homes is president, Robert L. Clapp, a health care executive with more than 16 years experience as president or chief operating officer. His 26-year career has included management, marketing, and development of sub acute care, long term care, senior housing, insurance and managed care programs. Prior to assuming his position at United Methodist Homes, Mr. Clapp was President of The Alliance Foundation for Housing and Health Care, Inc. and continues to serve as a Director. He was a principal partner in Amherst Senior Living Associates, a health care consulting firm in Illinois. He also served as President of Parkside Senior Services, a first line affiliate of Lutheran General Healthsystem (now Advocate) in Park Ridge, Illinois. He was Senior Vice President for the Health System Division of General Health Management in Hartford, Ct. He has also served on the Board of Directors of numerous health care organizations and industry associations. Mr. Clapp holds a J.D. from Western New England College School of Law and is a graduate of the University of Connecticut.

The Vice President is Curtis A. Milton, who has served as Administrator of Wicke Health Center since 1994. For the previous 18 years, he worked at Masonic Home and Hospital in Wallingford, Connecticut, where he was responsible for the operations of its 568-bed hospital and health care facility, as well as for management of corporate finances including its \$138 million endowment. Mr. Milton was past President of the Board of Directors of the Connecticut Not for Profit Facilities Association ("CNPFA"), the association representing the non-profit segment of the health care industry. He received his B.A. from Lafayette College and his M.B.A. from Washington University.

Kenneth J. Narus, Vice President for Financial Services, has served in this capacity for nearly 10 years and oversees budgeting, accounting and asset investment. He previously served as chief financial officer for Lord Chamberlain Nursing Facility and Rehabilitation Center in Stratford, Ct. He holds a Master's Degree in health management and is a licensed nursing facility administrator.



Stephen Kegler, Director of Support Services, manages capital projects, plant operations and business development. In his previous position with Health Care and Retirement Corporation of Toledo, Ohio, he coordinated capital planning and construction renovation in twenty nursing facilities in Northeast and Mid-Atlantic States.

Robert B. Congdon, Vice President for Development and Public Relations, conducted a successful capital campaign for Crosby Commons. He previously served as Assistant Director of the development program at Masonic Charity Foundation in Wallingford. Mr. Congdon served as president of the Planned Giving Group of Connecticut in 1992 and 1993 and received his B.A. from Yale University.

Carol C. Aimone, Director of Human Resources, has 15 years of human resources management experience in the banking and health care fields, including organizational planning, employee relations, staff development, compensation-benefits administration and career/performance management. She oversees search and recruitment services, regulations compliance and general labor issues effecting operations of facilities. She is a graduate of Fairfield University and is President of the Board of Directors of the Valley United Way.

Richard Yerrington heads the UMH Office of Resident Life Services. He is instrumental in the development of programs for residents and serves as the Shelton, Ct. campus Chaplain. Rev. Yerrington is responsible for Church Relations with church leaders of all faiths as well as within the Methodist organization. He is a graduate of Pratt Institute and the University of Connecticut and received a Master of Sacred Theology from Yale University. He is also an accomplished painter and musician.

Patricia A. Barry, R.N., Director of Nursing, has 18 years experience in geriatric nursing, including supervisory positions for 12 years at Dinan Memorial in Bridgeport.

Lillian Haurilak, Administrator of Wesley Heights since 1970. Ms. Haurilak is a certified housing manager. Ms. Haurilak is a member of the Ansonia Rotary Club and the Valley Substance Abuse Council.

### **Governance:**

United Methodist Homes and its affiliated companies share a Board of Directors consisting of twenty-one members who serve for staggered terms of three years.

### **Fund Raising Activities:**

United Methodist Homes seeks annual gifts and major current and deferred gifts for itself and its affiliated organizations. Donations are sought from individuals, churches, businesses and foundations. Total endowments and pledges exceed \$12 million.

## **Memberships:**

United Methodist Homes is a member in good standing in the following organizations:

The Connecticut Association of Not-for-Profit Providers for the Aging  
Connecticut Assisted Living Association  
American Association of Homes and Services for the Aging  
American Seniors Housing Association  
Assisted Living Federation of America  
Fairfield County Alliance  
Valley Chamber of Commerce  
National Center for Not-Profit Boards  
United Methodist Health & Welfare Ministries  
Valley Council of Health & Human Services Organizations.

## A BRIEF HISTORY OF THE UNITED METHODIST HOMES OF CONNECTICUT

UNITED METHODIST HOMES (UMH) has not one beginning, but three. The third beginning was the 1968 opening of Wicke Health Center on farm land in Shelton owned by Mary L. Beard, whose family had held the deed to the property since the time of King George III. The land was known as Century Farm at Long Hill and those who lived upon the land have consistently been committed to strong faith values and concern for others in the community. This provided United Methodist Homes a wonderful tradition upon which to build.

There had been two earlier beginnings at two other homes, the first in West Haven in 1919 and the second in Danbury in 1926, which were precursors to United Methodist Homes in Shelton. The Danbury and West Haven homes did not simply come before United Methodist Homes; they became United Methodist Homes as each closed and moved its residents to United Methodist Homes.

Wicke Health Center provided 100 residents with nursing care during its first full calendar year of operation (1969). Its occupancy rate was 99.7 percent, and there was a waiting list. Among Wicke's first residents were a minister's widow, a deceased minister's daughter, a minister's mother and the sister of a retired nurse.

In a report on that year's activities and successes, Executive Director Rev. Roy A. Goss noted that the Connecticut Department of Health had given Wicke its highest possible rating and that the federal Department of Health, Education and Welfare had certified Wicke as a Medicare provider.

The Wesley Heights retirement community, consisting of cottages and apartments, opened in 1970. Rev. Arthur Tedcastle, whose mother and mother-in-law were among the original residents, remembers the "great joy" with which residents greeted their new home.

Both Wicke Health Center and Wesley Heights have always welcomed residents of all faiths. Among the strengths of UMH has been the volunteer involvement and financial support of churches throughout Connecticut.

What follows is a summary of the major events in the histories of the United Methodist homes in West Haven, Danbury and Shelton.

### THE UNITED METHODIST CHURCH HOME OF WEST HAVEN

1874            Connecticut General Assembly grants charter for a corporation: "To provide a home for aged and destitute Protestant women in New Haven

giving special attention to such as are members of the Methodist Episcopal Church."

- 1918      Representatives from 80 churches organize a Board of Managers for the proposed home.
- 1919      A home at 11 Elm Street in West Haven opens to residents.
- 1920      Adjacent house is purchased and connected to original home. Dining room with rest room and an infirmary are added.
- 1930      The brick Blakeslee Memorial Dormitory is added.
- 1931      Based on nationwide inspections of similar homes by the U.S. Commerce Department, the West Haven home "is singled out for a favorable illustration, and complimented on its exceptional lack of institutionalism." A second report, this one from the U.S. Public Health Service, describes West Haven as "one of the homiest homes" in the state.
- 1950      A brick infirmary is added and facilities expanded to accommodate 36 residents.
- 1969      Fiftieth Anniversary is celebrated.
- 1970      New state regulations require changes to the facilities which are prohibitively expensive for a home of West Haven's size.
- 1973      West Haven Home contributes two thirds of the construction cost for new West Haven Pavillion at Wicke Health Center. Eleven residents transfer to Wicke and four to Wesley Heights.
- 1976      West Haven Home property is sold and the proceeds invested in an endowment fund to benefit residents of United Methodist Homes.
- 1996      The endowment fund continues to fund improvements to the facilities and services at UMH.

## THE METHODIST HOME OF DANBURY

- 1926      Superintendent of United Methodist New York East Conference appoints a committee to explore the need for a home for the aged.
- 1928      Danbury Home opens in a wooden house on Main Street. Trustees are drawn from Fairfield and Westchester counties. Churches and individuals donate funds for furnishings.

- 1940 Martha Crossman Rhoades memorial wing is added with funds donated by Richard W. Rhoades, an original trustee and benefactor.
- 1953 On its 25th Anniversary, the Danbury Home has 34 residents.
- 1968 Danbury Home closes after residents transfer to new Wicke Health Center in Shelton.

## UNITED METHODIST HOMES/WICKE HEALTH CENTER/WESLEY HEIGHTS

- 1961 Bishop Lloyd C. Wicke appoints a committee to oversee a capital drive for urgent needs, including retirement housing within the New York Conference of the United Methodist Church.  
  
39 acres of land in Shelton known as Century Farm at Long Hill are placed under option for purchase.
- 1965 Board of Directors is established for Wicke Health Center. Later, a separate management corporation. The United Methodist Homes of Connecticut, Inc., is formed to manage the assets and activities of Wicke Health Center and Wesley Heights.
- 1965 Shelton site is purchased.
- 1966 \$500,000 is raised to create a health care and retirement housing project in Connecticut.
- 1968 Wicke Health Center opens, providing skilled nursing care for 90 residents.
- 1970 Wesley Heights, a federally-subsidized retirement community with 90 cottage units and 92 apartments with full meal service, opens.
- 1973 West Haven Pavillion, a 30-bed expansion of Wicke Health Center, opens.
- 1982-1990 Bequests are received from David and Mildred Cockburn and from Thomas H. and Nettie L. Evans in excess of a half-million dollars.
- 1993 Refurbishing of Wicke (a two-year project) begins and Wicke's 25th Anniversary is celebrated.
- 1993 Long Range Plan is developed for renovation of existing facilities and expansion of UMH programs.

**1995** Wesley Heights celebrates its 25th year of serving seniors.

**1996** Board of Directors approves the development of a 67-unit assisted living residence on the Shelton campus, to be known as Crosby Commons.

## NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Robinson & Cole LLP, Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance with certain covenants and procedures relating to requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Bonds may be includable in the calculation of certain taxes under the Code, including the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, based on existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates, required to pay the federal alternative minimum tax. See "TAX EXEMPTION" herein.



\$7,560,000\*

## Housing Authority of the City of Shelton Variable Rate Demand Revenue Bonds (Crosby Commons Project), Series 1998

Dated: Data of Delivery

Due: January 1, 2031

This Official Statement has been prepared in connection with the issuance of \$7,560,000\* principal amount of Variable Rate Demand Revenue Bonds (Crosby Commons Project), Series 1998 (the "Bonds") to be issued by the Housing Authority of the City of Shelton (the "Authority"), a housing authority and a public body corporate and politic of the State of Connecticut (the "State"). The Bonds are being issued to provide funds to make a loan (the "Loan") to The United Methodist Homes of Connecticut, Inc. ("UMH") for the purpose of (i) financing the costs of construction and equipping of an assisted living project of approximately 67 units located in Shelton, Connecticut; (ii) the payment of interest on the Bonds; (iii) the payment of a portion of the costs of issuing the Bonds; and (iv) the payment of certain operating expenses (collectively, the "Project"). See "THE PROJECT" herein. The Loan is secured by certain assets of the Project which, in turn, are pledged by the Authority to the Trustee. Subsequent to the issuance of the Bonds, and after receiving notice of qualification as a charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and meeting certain other requirements, it is expected that the Project will be transferred to Crosby Commons, Inc., a non-profit Connecticut corporation and an affiliate of UMH ("Crosby"), which will assume all liabilities and obligations of UMH relative to the Bonds. The term "Insitution" as hereinafter used shall mean Crosby after such assumption and UMH prior to such assumption.

The Bonds are issued as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. While the Bonds bear interest at the Weekly Rate (as defined herein), individual purchases may be made in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Beneficial Owners of the Bonds will not receive certificates representing their ownership interest in the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. Interest on, and principal of, the Bonds are payable by the Trustee (as defined herein) to DTC, which will remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds, as described under the caption "BOOK-ENTRY ONLY SYSTEM" herein. First Union National Bank will serve as the trustee, tender agent and paying agent for the Bonds (the "Trustee," the "Tender Agent" and the "Paying Agent"). First Union Capital Markets Corp., a subsidiary of First Union National Bank, will serve as the Remarketing Agent for the Bonds (the "Remarketing Agent").

The Bonds, as initially issued, will bear interest at a variable rate of interest (the "Weekly Rate") to, but not including, the date upon which the interest rate borne by the Bonds is converted, if ever, to a fixed rate to maturity (the "Fixed Rate") in accordance with the terms of the Indenture of Trust described herein. While the Bonds bear interest at the Weekly Rate, interest shall be calculated on the basis of a 365 or 366 day year and the actual number of days elapsed and shall be payable on the first Business Day of each month, commencing March 2, 1998, and on the Conversion Date. While the Bonds bear interest at the Weekly Rate, the Bonds are subject to tender for purchase on demand of the Owners thereof. A Fixed Rate may be established for the Bonds, whereupon the Bonds will commence on the Conversion Date to bear interest at the Fixed Rate. The Bonds are subject to mandatory tender for purchase on the Conversion Date. Following the Conversion Date, the Bonds will cease to be subject to purchase on the demand of the Owners thereof. See "THE BONDS — MANDATORY TENDER OF BONDS ON CONVERSION DATE AND UPON EXPIRATION OR TERMINATION OF CREDIT FACILITY" herein.

The Bonds are subject to optional, extraordinary, and mandatory redemption prior to maturity as described herein. See "THE BONDS — REDEMPTION" herein.

The Bonds are special obligations of the Authority payable solely from and secured by amounts pledged (the "Security") under an Indenture of Trust, dated as of January 1, 1998 (the "Indenture"), between the Authority and the Trustee. The Bonds are payable from funds drawn under an irrevocable direct-pay letter of credit (the "Credit Facility"), as described herein, issued by

**FIRST UNION** First Union National Bank

(the "Credit Issuer"), (ii) moneys received by the Trustee from the Institution pursuant to a Loan Agreement, dated as of January 1, 1998 (the "Loan Agreement"), by and between the Authority and the Institution, evidenced by a promissory note and secured by an Open-End Mortgage, dated January 1, 1998 of the Institution, which have been assigned to the Trustee, requiring the Institution to pay, when due, the principal or Purchase Price of, premium, if any, and interest on the Bonds and (iii) moneys on deposit in certain funds and accounts established under the Indenture.

The Credit Facility shall be in an amount sufficient to pay (i) the aggregate principal amount of the Bonds at maturity, upon call for redemption prior to maturity or acceleration, (ii) the Purchase Price of Bonds tendered or deemed to be tendered to the Tender Agent for purchase, plus (iii) an amount equal to the interest to accrue on the Bonds for 55 days at a maximum rate of twelve percent (12%) per annum. The Credit Facility will expire on January 1, 2001, subject to earlier termination or annual extensions, as provided therein. During the period of time the Bonds bear interest at the Weekly Rate, upon the expiration or termination of the Credit Facility, the Bonds are subject to a mandatory tender, as a whole, at a Purchase Price of 100% of the principal amount thereof, together with interest accrued up to and including such purchase date unless the Credit Facility is renewed or the Authority provides an Alternate Credit Facility. Any such Alternate Credit must satisfy the requirements of the Indenture. See the caption "SECURITY AND SOURCES OF PAYMENT — THE CREDIT FACILITY AND THE ALTERNATE CREDIT FACILITY."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY AND PAYABLE SOLELY FROM THE SOURCES PLEDGED UNDER THE INDENTURE. THE BONDS SHALL NOT CONSTITUTE INDEBTEDNESS OF THE AUTHORITY, THE STATE, THE CITY OF SHELTON OR ANY OTHER POLITICAL SUBDIVISION THEREOF, NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE STATE OF CONNECTICUT OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF SHELTON, IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

PRICE 100%

The Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of their validity by Robinson & Cole LLP, Bond Counsel, and certain other conditions. Certain legal matters also will be passed on for the Institution by Murtha, Cullina, Richter and Pinney, LLP, Hartford, Connecticut and for the Credit Issuer and the Underwriter by Tyler Cooper & Alcorn, LLP, Hartford, Connecticut. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about February 20, 1998.

**First Union Capital Markets**

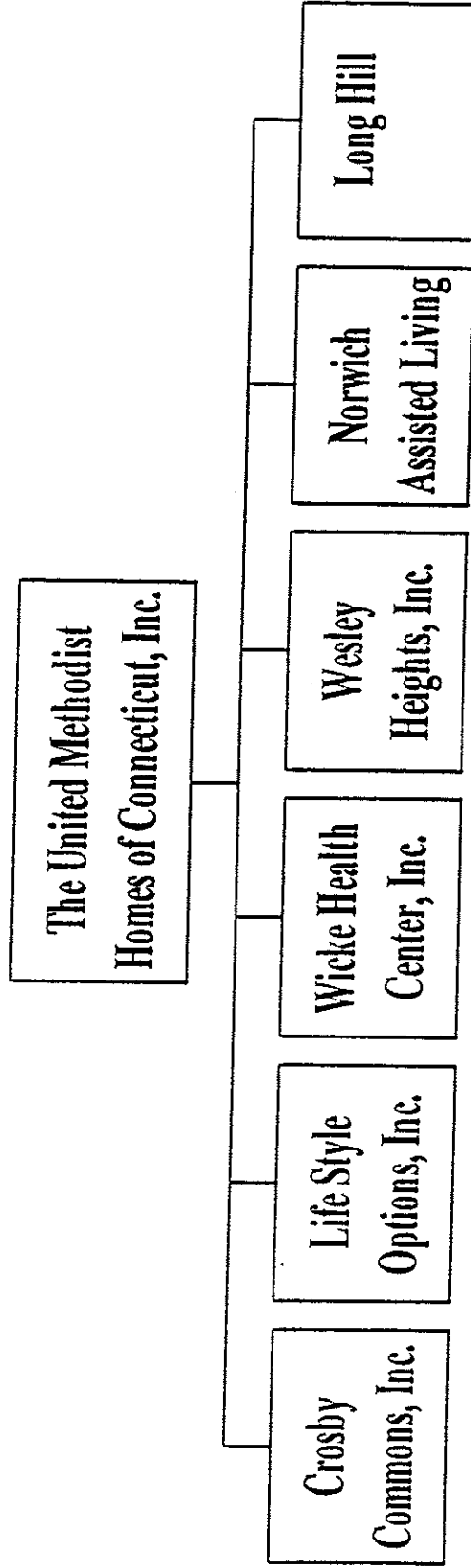
a division of Wheat First Securities, Inc.

Date: February 17, 1998

\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or change without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the laws of such jurisdiction.

# UMIH Organizational Structure





## **Overview of Alliance / UMH Joint Venture**

## **Overview of Alliance / UMH Joint Venture**

The Alliance Foundation for Housing and Health care, Inc. (Alliance), a not-for-profit, 501(c)(3) corporation headquartered in Fairfax, Va. and the United Methodist Homes (UMH - formerly United Methodist Homes of Connecticut, Inc.), a not-for-profit, 501(c)(3) corporation headquartered in Shelton, Ct., have teamed up to jointly develop, acquire, market, manage and operate housing, continuum of care facilities and integrated health care delivery networks for the elderly and special populations in select geographic markets. At the present time, affiliates of The Alliance Foundation and UMH have a minority interest, each, in a 78-bed assisted living facility in Hartford, Ct. In addition, The Alliance Foundation and UMH are jointly developing a mixed use independent living / assisted living project in Amherst, Ma., a mixed use independent living / assisted living project in Stonington, Ct and have several other projects under development (in various stages) and/or consideration throughout New England and Florida.

The Long Hill Company (LHC), the for-profit consulting and management company affiliate of UMH is currently providing Oversight Management and support services to Alliance at WeCare Nursing Center, Wildwood, Fla. and Indigo Manor Nursing and Rehabilitation Center, Daytona Beach, Fla. Indigo Manor is currently being managed by Alliance's for-profit consulting and management company, Fairfax Senior Living Company (FSL).

Pooling the experience and knowledge of the management of these two organizations, The Alliance Foundation and UMH have created a team that can provide a full spectrum of sophisticated consulting, development, marketing and management services for the development and operation of retirement communities and long term care facilities of all types. Collectively, The Alliance Foundation and UMH offer the benefit of having direct consulting, marketing, development, ownership and/or management experience with numerous facilities whose total units and beds are indicated below:

<b>Senior Housing Facilities</b>	<b>6,150 units</b>
<b>Assisted Living Facilities</b>	<b>1,120 beds</b>
<b>Nursing Homes</b>	<b>7,174 beds</b>
<b>Consulting Engagements</b>	<b>115</b>
<b>Adult Day Care</b>	<b>6 centers</b>
<b>Community-based Programs</b>	<b>Variety in 6 States</b>

By undertaking to share a mission to own, operate and/or manage a "core number" of facilities in key geographic areas, the organizations intend to strategically diversify their existing regional management staff to achieve the efficiencies of centralized management and hope to gain the benefits of bulk purchasing, lower insurance costs, and other economies of scale that ownership and/or operation of larger numbers of patient beds within a specific geographic region may provide.

The shared mission and goal of The Alliance Foundation and UMH strategic alliance is:

- 1) To expand opportunities to improve the quality of life for seniors;
- 2) To preserve and improve the quality of care seniors receive;
- 3) To operate each facility as part of an integrated healthcare delivery network so as to provide residents a near seamless continuum of health care services;
- 4) To be responsive, efficient and cost effective while improving the overall environment for those receiving care.

At the present time, Alliance / UMH are concentrating their efforts on developing integrated health care delivery networks within select geographic markets. By building and/or acquiring facilities in the same geographic markets that offer increasing levels of care; or, by entering into collaborative agreements with local health care providers which offer product lines to service different levels of frailty, Alliance and UMH seek to create an integrated health care delivery network that should provide a seamless continuum of health care options to meet increasing health care needs.

As both the type of care and the frequency of the needs increase, the resident graduates to a higher care level within an integrated health care delivery network which operates across the continuum of senior living options.

The Alliance Foundation current business plan is to acquire a core group of properties in Florida, all of which would be acquired, owned and/or operated by Alliance Foundation of Florida, Inc., with oversight management, marketing and healthcare consultancies being provided by FSL and/or UMH, or one of its affiliates. The Alliance Foundation intends to build new assisted living / dementia facilities at or near each of these nursing homes to expand the base of clients served and extend the continuum of care at these sites.

**The Fairfax Senior Living Company**  
**10387 Main Street, Suite 200**  
**Fairfax, Virginia 22030**

## **Introduction**

The Fairfax Senior Living Company is a for-profit subsidiary of The Alliance Foundation for Housing and Health Care, Inc. (The Alliance Foundation) located in Fairfax, Virginia. The Alliance Foundation formed The Fairfax Senior Living Company in 1999 to perform management and consulting services to operators and developers of senior housing and health care facilities. The Alliance Foundation, a 501(c)(3) not-for-profit corporation, which was formed in January 1994, is the sole shareholder of The Fairfax Senior Living Company.

Since its inception last summer, The Fairfax Senior Living Company has provided management and consulting services to both not-for-profit and for-profit providers of elder services. As competition has increased among senior housing and long term care providers, the requirement that facility's provide a broader scope of services has increased, often to the point of eclipsing the capabilities and/or capacity of the current owners and/or providers. The Fairfax Senior Living Company can draw upon the diverse experience of its principals in providing and/or managing a broad array of services as well as its experience of operating its own facilities, something not all management / consultancy firms can claim.

## **Background**

### **Management Services**

The Fairfax Senior Living Company through its principals have extensive expertise in senior services and the health care industry, with years of combined experience. We offer the benefit of having provided direct management, marketing and consulting services and experience with numerous facilities whose total units and beds are indicated below:

• Senior housing management & development	6,150
• Assisted Living	1,120
• Nursing Home	7,174
• Consulting Engagements	115

Currently The Fairfax Senior Living Company / The Alliance Foundation operate or manage two nursing homes and provide Oversight Management of one assisted living facility.

### **Development Services**

The Fairfax Senior Living Company is participating in the development of four mixed use senior housing projects (independent living / assisted living and/or skilled nursing). The projects are

located in New England, Virginia and Florida. All four projects are joint venture projects in which The Fairfax Senior Living Company will also provide consultancy, oversight management and/or management services.

**Joint Ventures and Strategic Alliances**

The Fairfax Senior Living Company has formed joint ventures and strategic alliances with a variety of organizations and providers of senior living products. The following represent organizations that The Fairfax Senior Living Company is currently involved with:

- United Methodist Homes of Connecticut, Shelton, CT (joint venture)
- The Long Hill Company, Shelton, CT. (joint venture)
- The University of Connecticut Health Center (tenant - Middlewoods, LLC)
- Middlewoods Assisted Living Facility, Farmington, CT (investor/consultancy)
- Nursing Services, Inc., East Hartford, CT (joint venture)
- The Huntington LP, Daytona Beach, FL (joint venture)



**Background.**

At the request of the Florida Health Care Association (FHCA), Aon Worldwide Actuarial Solutions (AWAS) has conducted an actuarial analysis of the cost of general liability and professional liability (GL/PL) claims to the long term care industry operating in Florida. All of the long term care providers included in this study are for-profit, multi-facility providers. Approximately 12,400 individual non-zero claims from long term care facilities were aggregated to perform this study. The facilities included in this study combined operate approximately 28,000 licensed nursing home beds in the state of Florida and 350,000 licensed beds countrywide. The results of this study are considered a critical component of lobbying for tort reform in Florida.

The study has now become public record and is being widely distributed by the Florida Health Care Association to the State Legislatures, the United States Senate Committee on Aging, the Wall Street Journal, Best Review, and other major newspapers nationwide. Included in the attachment is the Executive Summary and some relevant graphs highlighting results of the analysis.



#### **Executive Summary**

General liability and professional liability (GL/PL) costs for the long term care industry in Florida have become astronomical and extremely difficult to forecast. Unprecedented increases in both the number of claims and the size of a typical claim have created what is clearly a long term care liability crisis. The results of our analysis show that long term care GL/PL costs in Florida are undoubtedly higher than any other state (including Texas and California) in the United States.

Based on our actuarial analysis of the long term care industry data provided to us, which represents 35% of Florida and 20% of the U.S., we find the following:

- The average long term care GL/PL cost per annual occupied bed in the state of Florida is currently \$6,283, which is 8 times the average cost for the rest of the country.
- Florida accounts for only 10% of the total U.S. beds but 40% of losses.
- The average size of a 1999 claim in Florida (\$278,637) is projected to be 250% higher than the rest of the country (\$112,351).
- Florida long term care operators incur 3 claims for every 1 claim incurred in the rest of the country.
- Long term care GL/PL loss costs in the state of Florida have increased 37% *annually* over the past 5 years while the rest of the nation has seen annual increases of 20% during that time period.
- Approximately half of the total amount of claim costs paid for GL/PL claims in the Florida long term care industry are going directly to the attorneys.
- It now costs twice as much to insure a Florida nursing home bed than a hospital acute care bed.

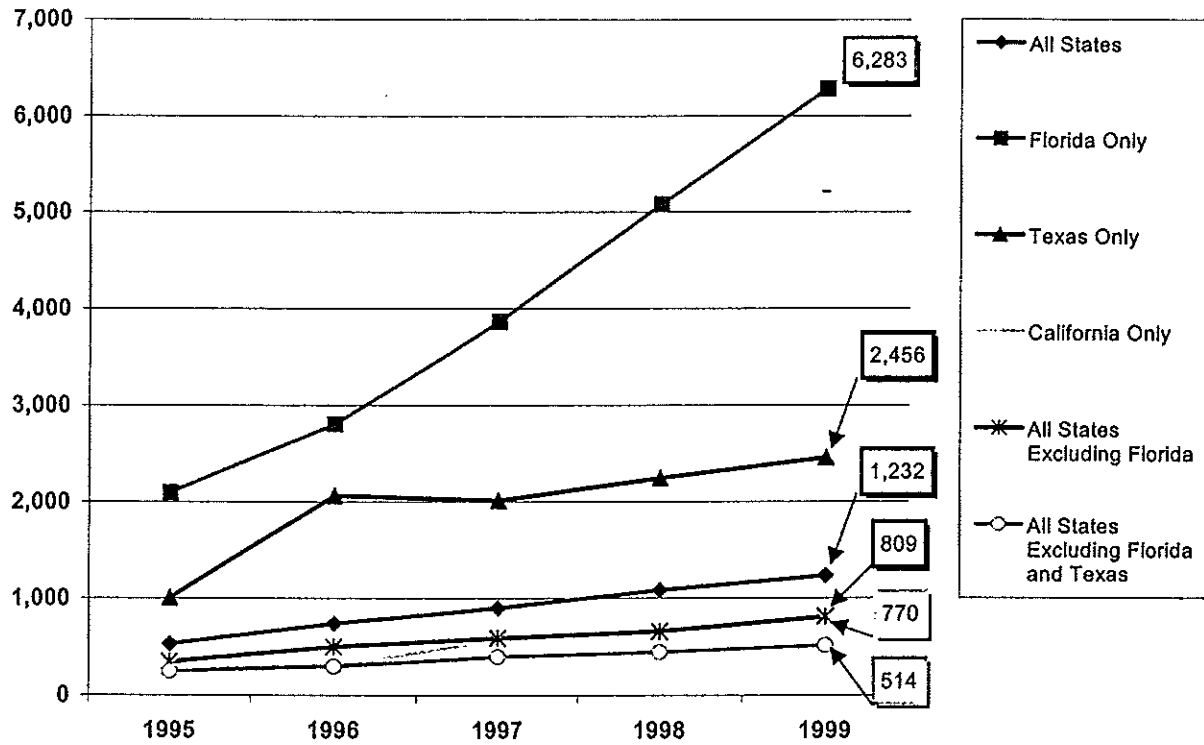
Insurance markets have responded to this claim crisis by severely restricting their capacity to write long term care GL/PL insurance. In the past year, at least 10 companies that historically wrote this coverage in Florida are no longer writing new business. In addition, several other companies are only offering claims-made coverage, not full occurrence coverage, as in the past. Insurance companies are exiting the state and cannot provide coverage when faced with this magnitude of losses and explosion in growth of claims.



### Loss Cost Differences

The cost per bed of GL/PL losses are materially higher in Florida than the rest of the United States as the following graph shows:

Loss Cost per Occupied Bed

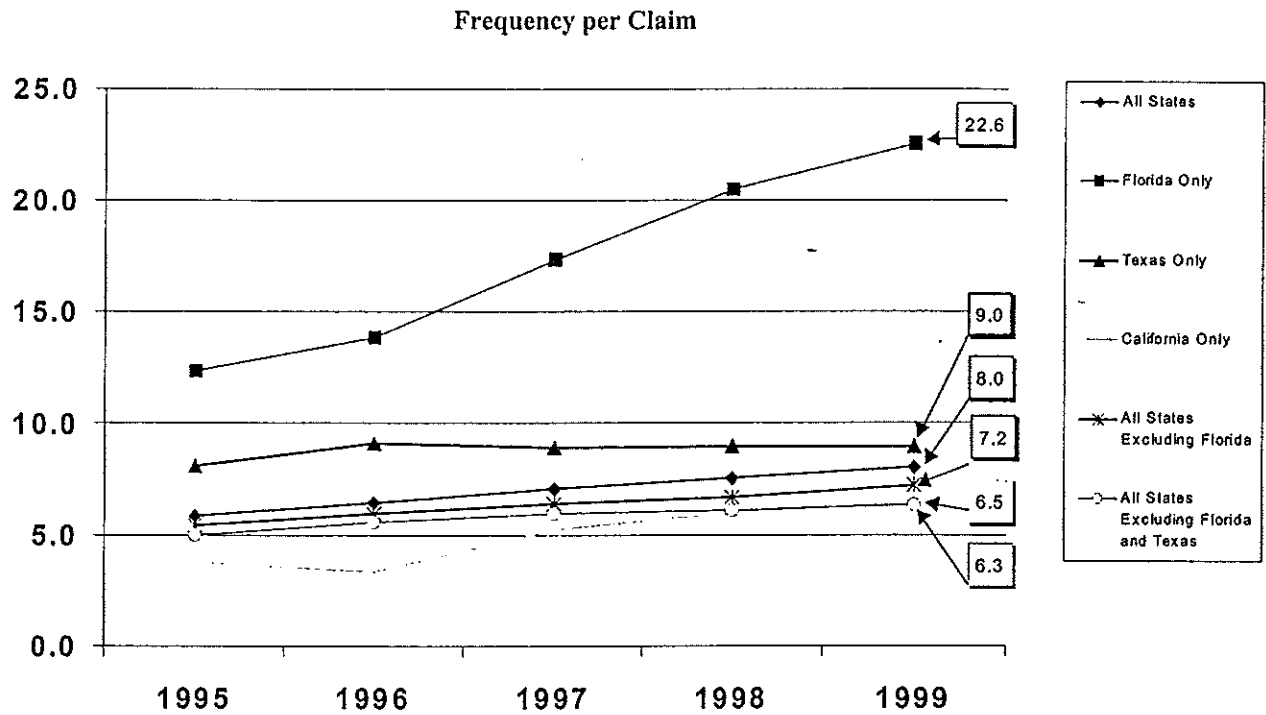






## Frequency

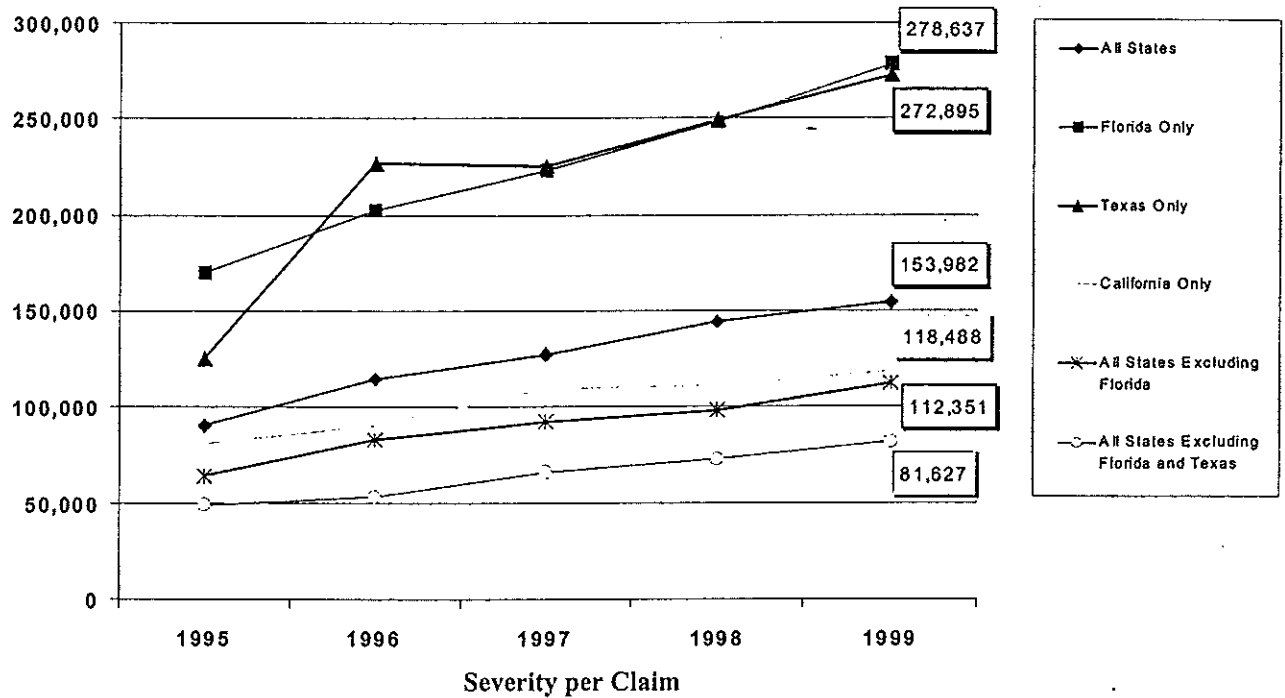
Florida long term care operators incur 3 claims for every 1 claim incurred in the rest of the country. For incidents occurring during 1999, Florida facilities will report approximately 23 claims for every 1,000 occupied beds, while facilities in the rest of the country will report only 7 claims.





### Severity

Over the last five years the average size of a GL/PL claim in Florida has been significantly larger than the rest of the country. The average size of a 1999 claim in Florida is projected to be 250% higher than the rest of the country.



From: Doug Palmer <dgp1@ms-lovelace.com>  
To: Bob Hostler c/o D. Bushey (E-mail) <marshinv@earthlink.net>  
Date: Monday, May 08, 2000 5:45 PM  
Subject: FW: e-mail I rec. thought you might want to see.

---

David,  
Please pass this along to Bob. He has an interest in some of it.  
Doug

-----Original Message-----

From: Ron Shuck [SMTP:rrs3@ms-lovelace.com]  
Sent: Thursday, May 04, 2000 8:45 AM  
To: Douglas G. Palmer (E-mail); Sandy Swindling (E-mail); Ray Bolt (E-mail); Steve Jones (E-mail); DeDe Nichols (E-mail); Farlen Halikman (E-mail); Frank M. Butts (E-mail); Julie Baird (E-mail); Kevin Maddron (E-mail); Phil McGlaughlin (E-mail); Ron Shuck (E-mail); Scot Aurelius (E-mail); Sue Ann Bunevich (E-mail)  
Subject: FW: E-Mail I rec. thought you might want to see.

-----Original Message-----

From: Stephen Gregson [SMTP:stephen\_gregson@hotmail.com]  
Sent: Wednesday, May 03, 2000 6:37 PM  
To: rhc-bod@flalist.org  
Subject: E-Mail I rec. thought you might want to see.

An article and editorial on issue. The first one is somewhat accurate except the meeting described in it has a Wilkes/US Re slant that is not exactly what happened. - bob  
5-1-00

Legislators won't mend nursing homes

By Mary Ellen Klas of the Palm Beach Capital Bureau

TALLAHASSEE -- When Florida legislators adjourn their annual session Friday, they likely will have done little to mend the financial fractures of the state's nursing home industry.

The liability insurance crisis that led to highly unusual negotiations between nursing home lobbyists and the lawyers who sue the homes will continue to worsen. Skyrocketing insurance costs will continue to strain nursing homes, particularly the five bankrupt for-profit chains that house 20 percent of Florida's nursing home residents.

And nursing home officials will continue to insist that the only way to halt the crisis is to make it more difficult for lawyers to sue.

After two months of the industry's lobbying, capital rallies and television ads, lawmakers concluded litigation limits were a shortsighted solution to the industry's deep, partly self-inflicted wounds.

"There's no simplistic answer," said Sen. John McKay, R-Bradenton, who sponsored a bill establishing a study commission that legislators are expected to pass this week. Headed by Lt. Gov. Frank Brogan, the commission will take a broad look at long-term care in Florida and make recommendations to next year's legislature.

"It's quite obvious there is a problem with regard to legal fees," said McKay, the Senate's incoming president. "At the same time, that is not the sole problem. It would be imprudent to embark upon a solution that deals with a portion of the problem."

Meanwhile, regulators are trying to get a handle on how bad things are for nursing homes and the 82,000 people they care for.

Insurance Commissioner Bill Nelson released preliminary results Friday of a poll tallying the number of companies that have stopped writing nursing home coverage in Florida, where industry officials say the insurance rates for for-profit homes are eight times the national average.

Of the 25 companies that reported carrying nursing home coverage for 28,790 beds in Florida last year, six companies -- representing more than half of those beds -- reported canceling or shifting to unregulated carriers. Only 11 said they are still writing new policies.

Small nursing homes hurt next

Because most of the large nursing home chains self-insure, the shrinking insurance market will hurt smaller nursing homes next, said Robert Allen, associate vice president for US Re, a New York-based reinsurer.

"In the Year 2000, there definitely will not be enough liability insurance for these homes," he said. "They will have to pay all these liability suits out of operating expenses, and it will mean a greater number of them filing for bankruptcy. The next (bankruptcy) wave we'll see is going to be the smaller homes. It's not just the larger chains."

These frightful predictions got the attention of legislators this session, but election-year politics and the fear of doing something that could be seen as bailing out bad nursing home operators made them wary.

Senate leaders acknowledged that the rising insurance rates are made worse by state laws that allow plaintiffs' lawyers to collect fees in cases against nursing homes whether they win or lose. But they concluded that the fix would require more than stopping lawsuits.

They advocated a go-slow approach because of the industry's other problems: financial strains prompted by lower Medicare reimbursement rates imposed by the federal government because industry fraud and abuse were unchecked; labor shortages that led to chronic understaffing; and inconsistent quality of care that has put more nursing homes on state regulator's watch lists.

Unlike the Senate, House leaders were willing to take a piecemeal approach and endorsed litigation limits as better than nothing.

Rep. Dave Bitner, R-Port Charlotte, led the effort, urging the governor to support a bill that would make it harder for lawyers to pursue claims.

But halfway through the session, at a pivotal meeting in the office of House Speaker John Thrasher, the House's commitment to the fight changed.

Thrasher, R-Orange Park, called all the parties into his office to negotiate a way to avoid an insurance crisis this summer. Directing the meeting was Ruben King-Shaw, secretary of the Agency for Health Care Administration, which regulates nursing homes.

King-Shaw went around the room, asking everyone to describe the problem. Nursing home officials each cited the rising cost of insurance, prompted by the high cost of settling legal claims.

Then came the surprise.

The trial lawyers agreed to support the litigation limits. Jim Wilkes, a Tampa trial lawyer and the nemesis of the industry, said he would agree to put medically related nursing home claims under stricter litigation standards and abolish the law that allowed easy attorney fees.

It was a dramatic concession from a man who has made millions off the existing laws by suing nursing homes on behalf of injured patients.

"Bitner almost fell out of his chair," recalled Steve Vancore, Wilkes' legislative director, who attended the meeting.

In exchange, Wilkes insisted that the state separate the not-for-profit homes from the insurance risk pool that included the for-profit giants. The industry must let the bankrupt homes go into receivership. And the worst negligence cases, those in which punitive damages were awarded, could be subject to criminal prosecution.

Then Wilkes asked the insurers one thing: Would the litigation limits entice them to write more insurance?

Their answer was telling: Alone, it would not.

"Something's got to give here if people want to be covered," said Brian May, who attended the meeting on behalf of US Re. "Even if there is tort reform, there still needs to be some change in behavior. Nursing homes need to do a better job of taking care of people, minimizing risk and reducing exposure."

Nursing homes had never included care standards as part of their negotiations with lawmakers. Now insurers wanted to make it a condition for writing coverage.

The meeting was persuasive. Thrasher recalled King-Shaw's conclusion: The nursing home solution is "going to take three things: quality controls, litigation reform and more funding."

Thrasher's conclusion: "I don't think there's the political will to do it" this session.

The House never drafted a bill.

Plan would get Fla. insurance

Meanwhile, May, who is a former deputy chief of staff for Insurance Commissioner Nelson, thinks US Re has found a solution for getting more insurance into the Florida market.

The company is developing coverage at competitive rates to nursing homes that agree to do key things: establish strict risk management procedures and aggressive claims handling, implement the insurer's quality of care measures and train staff based on specific requirements.

"Once somebody finds a way to think out of the box, other companies will try to do it," said Allen, the US Re official. "And once you have that competition and everyone's following decent risk management procedures, it will reduce exposure (to lawsuits) and reduce rates."

> [mary\\_ellen\\_klas@pbpost.com](mailto:mary_ellen_klas@pbpost.com)

Note reference to nursing homes

Palm Beach Post editorial "As session nears end, best action is inaction"  
5-1-00

5-1-00

As session nears end, best action is inaction

"At least, do no harm." Floridians will have to hope that legislators keep Hippocrates' advice to physicians in mind as they plunge into the last week of their session. Too many pills on the tray would be poison for the state. In three areas, everything the Legislature could do would cause harm, so the hope is that lawmakers will do nothing. Those areas are:

The environment. The submerged lands bill, known officially as the Florida Land Title Protection Act but more accurately known as the "land grab," is in its sixth or ninth version, depending on who is counting. It still would give state land under rivers and lakes to owners of adjoining property. In most cases, the owners are cattle, mining and timber companies.

The nuclear warhead on the missile that Rep. George Albright, R-Ocala, launched against growth management has been replaced with conventional weapons, but the Senate should shoot down the missile anyway.

The courts. Bashing judges was a popular evasion this year even before the Florida Supreme Court struck down rules on death-penalty appeals that lawmakers hastily passed during their January session. But letting the governor pack the Supreme Court with new appointees, or pack the judicial nominating councils that screen candidates for judgeships, or setting up a special court for appeals in death-penalty cases all are bad ideas. Even worse would be any legislative grab for the judicial branch's power to make

its own rules, a move that would set up a constitutional crisis.

Government reorganization. Too little thought stands behind efforts to abolish the Board of Regents and elected insurance commissioner and to decimate the Department of Labor. The regents, none of whom needs the job, and Chancellor Adam Herbert have made the case that they solved a problem -- warring university fiefdoms -- that will come back if they go.

The future of insurance regulation has to be settled by 2002 under a constitutional change, but next year is only 2001. Lawmakers don't have a firm answer to the question of whether they can let private companies administer federal work-training program money.

One-fifth of the nursing homes in the state are in bankruptcy. The only pill on this tray is a bill by Sen. William "Doc" Myers, R-Hobe Sound, offering some relief from legal costs. It may help some not-for-profit homes, but it wouldn't save the industry. This is a big problem. It will need a special session with no distractions.

Putting all that aside still leaves legislators plenty of good to do. One is to pass a statewide building code aimed at hurricane protection. The House version, agreed to by the insurance industry and (reluctantly) by builders, is better than the Senate's.

Another vital move is to create conditions for a network access point (NAP) for the Internet in South Florida. It's an inexpensive step that would pay off in new-economy business development. Unfortunately, it's stuck in a

House committee, despite this Legislature's professed friendliness toward business. The state would get a lot more, for less money, from the Senate-passed bill, by Sen. Ron Klein, D-Boca Raton, than from House Speaker John Thrasher's medical school at Florida State University, which seems to be as unstoppable as it is unnecessary.

The Legislature is supposed to make Florida a better place for all its people. But this year and last, lawmakers set priorities that reward big givers and those with narrow interests that do not benefit the public. Sadly, the best legislators can do in many areas is to leave the work unfinished rather than finish it and leave people worse off.

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If you ever want to remove yourself from this mailing list, you can send mail to <[Majordomo@flalist.org](mailto:Majordomo@flalist.org)> with the following command in the body of your email message from your subscribed email account:  
unsubscribe rhc-bod

Books, H-7  
Travel, H-7  
Life, H-4

# Business & Money

F

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The answer  
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filed quarterly  
by anyone who  
purchases tax-  
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the Internet,  
or by phone. It is  
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Revenue spokesman  
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won't get caught.  
to conduct house-to-  
he said.

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netlines exposed by  
venue audits. And  
step: payment of  
1 percent annual in-  
of up to 50 percent

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or a Tallahassee ho-

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is losing to unre-  
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my has increased  
ahead of projections  
several years.  
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Jim Horne, R-Orange  
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comes from the sales

st of those taxable  
ed at businesses

## nursing homes

### Do they have one foot in the grave?

Many facilities claim  
skyrocketing insurance costs  
are driving them under

By Greg Groeller

OF THE SENTINEL STAFF

Jim Wilkes is on a crusade to  
dismantle Florida's nursing-  
home industry — one lawsuit at  
a time.

Since the early 1990s, the  
Tampa-based lawyer has suc-  
cessfully sued hundreds of  
nursing homes, racking up mil-  
lions of dollars in settlements  
and jury awards for elderly cli-  
ents who, Wilkes claims, suf-  
fered or died at the hands of an

unfeeling industry.

So it's little surprise that  
Wilkes and his army of 30 law-  
yers have become the worst  
nightmare of many nursing-  
home owners. But it's not just  
the specter of becoming Wilkes'  
next target that keeps them up  
at night. It's the skyrocketing  
liability-insurance premiums,  
which they say are the direct re-  
sult of Wilkes' lawsuit spree.

Take James Emerson, chief  
executive of Presbyterian Re-  
tirement Communities in Orlan-  
do. Emerson recently discov-

ered that the cost to insure  
three nursing homes that Pres-  
byterian owns jointly with Or-  
lando Regional Healthcare Sys-  
tem Inc. is increasing 969 per-  
cent this year, to \$1.7 million  
from \$159,000 in 1999. What's  
more, the company will have to  
pay a \$250,000 deductible for  
each claim it files. It paid no de-  
ductible in the past.

Faced with paying \$2,568 to  
insure each of the 682 beds,  
Presbyterian Retirement is  
quashing plans to renovate its  
three facilities. Emerson still

isn't sure he can pay the bill,  
which is due in full at the end  
of April. Emerson complained  
to state lawmakers, but was told  
they won't consider laws to pro-  
tect the industry until next year.

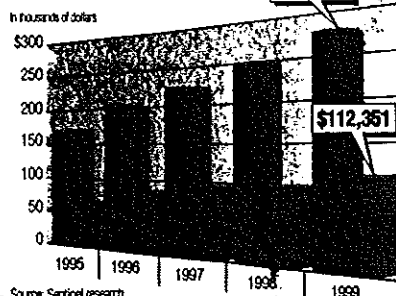
"The question is, how do I  
stay alive in the meantime?" he  
said.

Emerson is one of many  
nursing-home executives who  
say Florida's legal climate could  
deal the final blow to an indus-  
try already struggling to survive

Please see LAWSUITS, H-8

### Nursing home claims

Average cost per case to defend  
and settle lawsuits



### 'How do I stay alive?' James Emerson

Emerson, chief execu-  
tive of Presbyterian  
Retirement Commu-  
nities in Orlando, dis-  
covered that the cost  
to insure 3 nursing  
homes is increasing  
969 percent this  
year, to \$1.7 million  
from \$159,000 in  
1999.

The company will  
have to pay a  
\$250,000 deductible  
for each claim it files.  
It paid no deductible  
in the past.



JOE BURGAK/THE ORLANDO SENTINEL

## Tax error turn bad situation worse

□ Filing is tough enough — avoid mistakes that could delay a refund or cost you money.

By Jim MacKinnon

AKRON (OHIO) SEASON JOURNAL

No mistake about it, figu-  
ring out your income taxes can  
be complicated.

Making things more com-  
plicated than necessary are  
mistakes:

Basic math  
mistakes. For-  
getting de-  
ductions mis-  
takes. Missing  
form, wrong  
form and So-  
cial Security  
number mis-  
takes. Incom-  
plete informa-  
tion mistakes.

Tax prepar-  
ers and the  
Internal Revenue Service  
seen them all, and then some.

These mistakes can —  
usually will — delay the pro-  
cessing of your forms if they  
have to be sent back to you. That  
means, for instance, delay getting  
a refund — or your refund am-  
ount could change. Having a tax  
professional do your returns  
help greatly. Do-it-yourself  
need to read all of the in-  
structions and keep a checklist.

Using tax preparation  
ware can also help you avoid  
falls.

"Probably the most com-  
mon mistake we have is leaving  
the Social Security num-  
ber," said Dorothy Barry, spoke-  
man for the Internal Revenue  
Service center in Cincinnati.  
delays the processing."

Something new to pay at-  
tention to this year are the lab-  
els the forms the IRS mails out  
to taxpayers. The labels will  
have Social Security numbers  
on them. The decision to leave  
the numbers was made to in-  
crease privacy, Barry said.

People who will be sending  
paper forms — the IRS pre-  
fers forms be sent electronically  
will have to physically write  
Social Security numbers on  
page, she said. Most, if not  
all, IRS forms require Social Se-  
curity numbers, she said.

It's not just the Social Se-  
curity number of the person or  
son signing the return that  
ways needed, she added.  
claim the \$500-per-child tax  
it, the Social Security num-  
ber of each child who qualifie  
also needed, Barry said.

Lee Noble, district mar-  
ket manager for H&R Block, said  
the common mistake his office  
is a failure to file city in-

Tax time  
2000  
Don't forget  
this year's deadline  
Monday, April 10



# In less than a year, 7 nursing home chains filed under Chapter 11

## Lawsuits from H-1

Because of deep cuts in federal Medicare reimbursements, in less than a year, seven national nursing-home chains have filed for Chapter 11 bankruptcy protection, citing the cuts. Five of them — NewCare Health Corp., Vencor Inc., Sun Healthcare Group Inc., Manor Post-Acute Network and Integrated Health Services Inc. — operate nearly 30 percent of the 88,000 beds in Florida.

At the least, the industry's financial problems may jeopardize patient care by destroying employee morale and driving the best caregivers out of the business, experts and regulators say. At worst, it will result in widespread closures that could strain Florida's long-term care industry so badly that remaining homes would begin turning elderly patients away. Nursing homes already are near capacity, with occupancy statewide at more than 90 percent.

"There's a complete assault on the industry," said John Noble, who analyzes the financial health of nursing homes for the Agency for Health Care Administration in Tallahassee, which regulates the industry. A lot of companies stay in Florida because our elderly population makes us a growth state. With our legal climate, that can only last for so long."

Making matters worse: Only one of a dozen large insurers is willing to write new policies in Florida, though the others are willing to renew existing policies at higher premiums. As a result, nursing homes that receive sky-

high bills have little hope of finding lower rates elsewhere. And because the Department of Insurance doesn't regulate nursing-home premiums, insurers can raise rates without government restraint.

According to a study commissioned by the Florida Health Care Association, which represents long-term care facilities, nursing homes are paying an average of \$278.637 per case to defend and settle lawsuits, more than double the national average of \$112.351. The disparity has existed for several years.

The frequency of suits has soared in Florida while remaining relatively constant in the rest of the country, the study found. In 1999, Florida's nursing homes were hit with 22.6 suits for every 1,000 beds compared with the national average of 7.2 suits. In 1995, there were 12.3 suits per 1,000 beds in Florida, compared with 3.4 suits nationally.

To many, the nursing-home industry hardly garners sympathy. Years of abuses, government shutdowns and lawsuits have won their public reputation to the point where many people see nursing homes as places of despair, to be avoided at all costs. As a result, many nursing homes are crowded with society's poorest senior citizens, while those with money flock to premium services such as home care and assisted living facilities.

In one high-profile Central Florida case filed by Wilkes' firm in 1997, the family of retired police detective John Boswell sued the Leesburg Nursing Center, claiming

that Boswell died after he was left unattended and bedsores had eaten into most of his body. Boswell lay at times naked in his own filth, the family said. The case was settled out of court in 1998 for an undisclosed amount.

Even nursing-home advocates acknowledge that cases of abuse still exist. But some independent experts say Florida's laws make it too easy to sue for incidents that are linked more to the common maladies of aging than to neglect. Lawsuits over incidents that appear unavoidable, such as falls, minor bedsores and deaths, have become commonplace, experts say.

It seems that any time someone dies in a nursing home, there's a lawsuit," said Alan Plush, director of PricewaterhouseCoopers in Sarasota, which appraises nursing homes for lenders, buyers and potential acquirers. "But people go to nursing homes to die."

Executives say Florida's legal climate grew hostile in the early 1990s, when legislators excluded nursing homes from the state's medical-malpractice laws that cap the damages plaintiffs can seek against health-care providers. The exemption, which was meant to give patients more protection against nursing-home abuses, opened the door for trial lawyers to attack the industry with gusto, nursing home executives say.

The first lawyer to take advantage of this legal loophole was Wilkes. And while many other law firms in Florida have jumped on the nursing-home bandwagon, the Tampa lawyer's name is the one

most often mentioned — and cursed — by industry executives. Wilkes is unsympathetic to the financial plight of the industry. He points to a recent spate of federal actions against large nursing-home chains that allege some companies bilked the Medicare and Medicaid programs out of billions of dollars. For example, the U.S. Justice Department filed a \$1 billion claim in federal bankruptcy court on March 14 against Vencor Inc., a Louisville, Ky.-based chain that operates one home in Central Florida, and in February, Beverly Enterprises Inc., which owns eight facilities locally, settled charges that it defrauded Medicare by agreeing to pay \$175 million.

Rather than waste money lobbying legislators to change Florida's laws, companies should focus on stopping corruption and nursing-home abuses, Wilkes said. "We've got a system that is full of fraud and deceit, and their evil owners are spending money on a political campaign designed to take away their patients' rights," he said.

If Florida's nursing-home industry collapsed under the weight of its financial problems, its elderly patients would be better off, Wilkes said. He bristles at the claim that Florida law makes it too easy to sue for minor incidents and ailments. "I don't think there should be an acceptable level of neglect," he said. "These people have gone out and committed enough crimes that they've numbed the public to them."

Wilkes isn't alone in asserting that the industry may have brought at least some of its problems on itself. In the early 1990s, many nursing-home operators went on buying sprees, gobbling up competitors to build national chains. When Congress cut Medicare reimbursements in 1997, the chains were so leveraged that they could no longer afford to pay their creditors and operate at a profit, said PricewaterhouseCoopers Plush.

"Medicare was a gravy train," Plush said. "They gambled that it was going to last forever and they lost." As for the lawsuits, the industry's history of abuses made it an easy target, he said. Still, some industry watchers worry that, rather than correcting injustices, the proliferation of suits will ultimately jeopardize patient care by destroying the morale of nursing-home staff and making them hesitant to deliver the proper care.

"You are always looking over your shoulder and saying what are the chances of being sued if we do this," said Ron Spencer, administrator of Terra Vista Rehab & Health Center in Orlando. "It makes for a very defensive environment. Sometimes you feel, no matter what you do, you aren't going to win."

Nursing homes aren't likely to get legal relief any time soon. Despite heavy lobbying by the industry, lawmakers aren't expected to pass legislation that might be perceived as taking away the rights of patients to sue nursing homes, particularly in an election year.

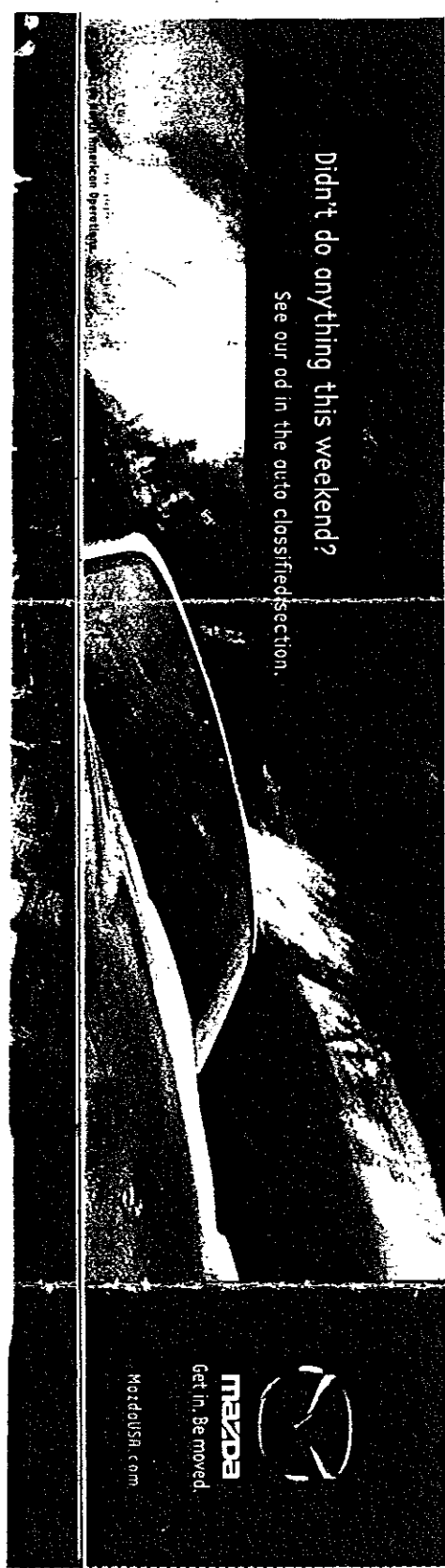
However, some experts think that legislation offering limited protection will be passed in the next few years.

In the meantime, nursing homes that don't pay their bills will risk the wrath of their lenders. That's because most banks require facilities to carry liability insurance as a condition of their loans. Nursing homes that allowed their policies to lapse would risk foreclosure.

Finding a competing insurer with lower rates isn't an alternative, either. Just one company, The Northern Group, is writing new policies in Florida, said a government source. Sterling, Shurtliff, the Norcross, Ga.-based insurer's chief executive, would not comment.

Belinda Miller, director of the state Department of Insurance's insurer-services division, said insurers can avoid regulation by selling nursing-home insurance through unregulated subsidiaries known in industry jargon as surplus line carriers. This classification was set up by the state to provide alternatives for companies that are deemed too risky by conventional insurers. Thus, major insurers such as CNA Financial Corp. can raise rates without the state's permission.

Bottom line: Nursing homes have little choice but to pay their premiums. And while there are no easy answers to the industry's current plight, one thing appears certain: Jim Wilkes isn't going away. "They are just evil, and everybody knows it," Wilkes said. "That's why I always win."



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PRELIMINARY RESEARCH REPORT

To: Sales & Trading

From: Mark Wuensch

Date: 3/31/00

Subject: Florida Nursing Home Update

Introduction

In 1980 the State of Florida passed legislation (Title XXIX Chapter 400) specifically aimed at the nursing home industry that relates to nursing home residents' rights. The legislation promises residents privacy, good medical care, access to outsiders, information and even courteous treatment. Unlike most other States, Florida's law lets residents sue over any violation, including the subjective right to "dignity." This is an easier legal hurdle than providing malpractice or negligence as is required in most states --or when suing hospitals in Florida under the malpractice law. In addition, Chapter 400 allows lawyers to collect their fees on top of any award, instead of taking them from the client's share, as is customary in other states.

Why Florida Created Law

Florida's legislative action against nursing homes stemmed from a federal mandate to improve after a series of national studies found passive state actions, such as inspections at predictable hours and inadequate follow-up. Additionally, Florida nursing homes were especially vulnerable to strict Legislation due to its large senior population and the subsequent negative stir that bad nursing homes spread across the state.

Nursing Home's Response to Law

The Florida Health Care Association (the major lobbying group for the industry) has asked legislators to make plaintiffs prove medical malpractice (a much stricter criteria) to win suits against nursing homes. They also want to set maximum verdicts against top-rated "gold seal" homes. However, at this point it appears that the Association does not have the support of the State's chief nursing home regulator.

Legislative Affects on Insurance Costs

Given the effects of the Legislation, Florida nursing homes were three times more likely to be sued, than nursing homes in other states. The average claim in Florida per home was \$230,342 compared with \$71,456 in other states. Florida nursing homes spent \$3,237

\* Subject to change.

\*\* No proceeds will be realized at closing.

per bed on lawsuits and legal fees in 1999, which is by far tops in the nation and up from \$338 in 1990, according to a study by Aon Worldwide actuarial firm. These legal costs have been a factor in bankruptcies and losses across the state.

Subsequently, insurance companies have stopped insuring nursing homes in Florida. Eleven insurers stopped writing new policies in the state, and of the six remaining, only one has been in Florida for more than two years.

As a result, the remaining insurers in Florida, charge exorbitant rates. For example, insurance that cost \$14,000 in 1994 now costs \$260,000 and offers far less coverage.

### Summary

Presently, legislators in Florida are grappling with the problem. Some industry experts have suggested placing caps on nursing home liability awards -to provide insurance pricing relief. Given the magnitude of the issue, legislators are trying to resolve the matter by their adjournment, which is scheduled for May 5, 2000. Although the legislature is looking for some reasonable middle ground in solving the cost and liability issues, nursing home operators do not expect any insurance cost relief for the immediate future.

### Opinion

In consideration of the above, we view that the lack full relief by Legislators by the end of the current legislative session will case the nursing home industry further stress in regard to meeting their debt service coverage requirements for the next six quarters.

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## Liability Costs: The Next Chapter in Chapter 11 Filings?

4/28/2000

By Elise Nakhnikian

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### [The PPS Connection](#)

[The Liability Crisis: Coming Soon to a Facility Near You?](#)

[Florida: The Canary in the Mine?](#)

[Other Fallout](#)

A recent bulletin issued by the American Health Care Association (AHCA) brings the troubles experienced by nursing home chains over the past few months into sharp relief. But if you thought the Balanced Budget Act was the cause of all the industry's financial woes, the news from Florida's liability front may make you think again.

### [The PPS Connection](#)

AHCA zeroed in last week on 51 congressional districts in which more than 10% of the skilled nursing care facilities were in bankruptcy as of early this month. (See [U.S. Congressional Districts With More than 10% of the Nursing Homes in Bankruptcy](#)) The association sent letters to the members of Congress representing each district, urging them to provide legislative relief to the struggling homes. The letter also acknowledged that more than 1,660 facilities -- one in ten nationwide -- is now operating under Chapter 11 bankruptcy protection.

AHCA's letter focused on the effects of cuts in Medicare payments enacted in the 1997 Balanced Budget Act, especially the prospective payment system for skilled nursing facilities. While the government initially estimated that PPS would save Medicare \$9.5 billion over its first five years, the association noted, cuts for that period are now estimated at more than \$15 billion.

The letter acknowledged that the estimated \$2.7 billion in Medicare funding restored by the Balanced Budget Refinement Act of 1999 was a step in the right direction. But, it said, more money must be added back to the system. "Failing to act promptly will cause this crisis to escalate -- to the detriment of the elderly Americans to whom Medicare's promise means the most," the letter concluded. "Therefore, I urge you to address these payment rate inadequacies immediately."

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### [The Liability Crisis: Coming Soon to a Facility Near You?](#)

Ultimately, it was the weight of their debt loads rather than the cuts in Medicare that toppled most of the bankrupt chains, but even their inability to pay down that debt could be attributed to PPS. Many big chains, points out Joy Calkin, CEO of Extendicare Health Services Inc (Milwaukee, WI), borrowed "in anticipation of the results of the Balanced Budget Act. It's very hard to be certain about paying bank loans when the basis for your calculations is wrong. As to whether people should have borrowed the money in the first place, that's up for review. But asking people to predict an outcome when they were placed in a situation of uncertainty leaves them sort of unprotected."

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But neither PPS nor prohibitive debt is the problem for many of the facilities that are struggling now. Many of the providers having the hardest time balancing their books are not "the big multi-case ones that had the wherewithal to borrow money in the first place," says Calkin. "Now it's the little guys who need insurance to get their HUD loans."

"The problem is that nursing homes are no longer able to get insurance for general or professional liability, which means you can't get your bank loans, which means there will be a lot of people in trouble this year," she concludes. As a result, the next wave of bankruptcies—or of sales by providers who are bleeding red ink—may involve smaller operators unable to afford the cost of insurance, or to get it at all.

This is not a national crisis—at least, not yet. But lawsuits are rampant states like Texas, Florida and California, and they've been increasing at a rapid clip nationwide. According to a study completed this January by Aon Worldwide Actuarial Solutions for the Florida Health Care Association (FHCA), the number of general liability and professional liability claims and lawsuits against long-term care facilities has increased by 8% a year over the past five years nationwide. Meanwhile, the cost of settling those claims has increased by 20% a year.

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#### **Florida: The Canary in the Mine?**

Florida may be the canary in the mine of liability costs. Nursing homes spend far more money there than in any other state on costs related to general liability and professional liability. In fact, the cost of legal fees and insurance, and the increasing difficulty for some providers of getting insurance at all, may have reached crisis proportions.

Earlier this month, Caliber One Management Co. (Philadelphia, PA) said it would cancel its coverage of all Florida facilities in 60 days. Meanwhile, according to FHCA, more than a dozen other insurance companies have either raised their rates steeply, some by as much as 1,000 percent, or refused to renew policies.

In at least one way, Florida's experience may not be typical. The spur to its spate of suits is a law passed in the early 1990s that allows nursing home residents or their relatives to sue for an "infringement" of the resident rights outlined in the OBRA '87 Nursing Home Reform Act. "Nothing you do comes under medical malpractice, which is more clearly and narrowly defined," says Erwin Bodo, senior vice president of reimbursement and statistical programs for the Florida Association of Homes for the Aging (FAHA). "It comes under resident rights instead. That means the amounts a jury may award are huge, so most facilities just settle out of court."

"The regulators have been helpful in assessing this and saying it's a problem," says Extendicare's Calkin, who has been lobbying the state for legislative relief. "The governor has said that if the legislature brings him legislation he will consider it—and he will call the house back if there's a crisis. So, in essence, he was trying to get them to get a move on." Florida Insurance Commissioner Bill Nelson also weighed in, send questionnaires to several hundred liability insurance firms after Caliber announced that it was pulling out. The letter asked whether the firms insure any Florida nursing homes—and, if they do, whether they plan to keep doing so.

"So what's the barrier?" asks Calkin rhetorically. "One, our bad press over the years and the low degree of [public] trust. And two, the senate has an election coming this fall that they expect to be hotly contested, and they're not willing to do anything right now that will swing votes against them. They think that, given the rhetoric from, particularly, the plaintiff's bar, they may be in trouble with older voters—or with voters, period [if they pass a law favorable to nursing homes]."

Meanwhile, the cost of insurance, legal fees and settlements and fines in the state is skyrocketing. According to the Aon study, general liability and professional liability costs in Florida averaged \$6,283 per occupied long-term care bed in Florida last year, compared to \$809 in all other states. And that number is increasing fast—up from \$5,082 in 1998 and \$3,885 in 1997.

The Aon study was based on a large sample, including about 12,400 claims representing almost 35% of the long-term care beds in Florida and 20% of those nationwide, but it included almost no not-for-profit facilities. However, FAHA, which represents the state's not-for-profit facilities, did its own study in January.

The association asked its members who provide nursing home or assisted living care whether they were involved in lawsuits or had claims filed against them from 1997 through 1999. Of the 58 respondents, "right at 40% were either involved in an ongoing litigation or had claims filed against them during those three years," says Bodo. "That, to me, is real frightening."

Few respondents mentioned the amount they had paid in settlements or fines, either because the case was still in progress or because the terms of their settlements included a nondisclosure agreement. But of the sums that were reported, one was as high as \$750,000.

"I have absolutely no doubt that some of the cases should have been brought," says Bodo. "But I'm also sure there are cases in which litigation is not an appropriate way of resolving the problem."

All those settlements and fines make insurance prohibitively expensive. One respondent had its policy cancelled even though no claims had been filed against it. The company found only insurer that would sell it coverage—and that was for "something like \$2 million," says Bodo. Another respondent that took over three ailing nursing homes in Orlando was charged \$1.7 million in liability insurance for them last year, says Bodo. "Their bottom line is, they just don't think they can do it, so they're going to try to unload these three facilities because it's not fair to all the other facilities [they own]."

These are among the worst scenarios reported, Bodo acknowledges; other survey respondents said they saw no increase in insurance costs between 1997 and 1999. "But I don't think that's going to be the case when they get their next bill," Bodo predicted.

And that leaves facility owners between a rock and a hard place. "If you go bare because you can't afford [insurance coverage], you're taking a calculated risk in a highly litigious environment," says Calkin. "But if you pay the money, you're no longer able to run a business that will take care of your family."

The concerns are the same for not-for-profits, says Bodo, since even they cannot run at a loss for long. "There's only so much we can get from the community and the charitable organizations and the philanthropic organizations," he says. "There's absolutely no way to pay for the increases. Nor can we go without the liability insurance. Most banks require it for a mortgage."

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#### **Other Fallout**

Ironically, the suits being waged in the name of residents may be hurting them as much as it hurts the providers. After all, every dollar spent on lawyers and insurance is a dollar that can't go to patient care, staffing costs, or improvements in resident quality of life. The Aon study estimated that 49% of the money spent for general liability and professional liability claims in Florida went to defending or prosecuting lawyers.

Notorious plaintiff's attorney Jim Wilkes, who has made a lucrative specialty of suing nursing homes, was quoted recently in the *Citrus County Chronicle* as saying that his firm currently has \$1 billion in lawsuits pending against homes. Most of those suits are in the state of Florida. "Meanwhile," points out Calkin, "Florida [the state and federal governments combined] pays \$1.5 billion a year in Medicaid for long-term care. So money that's being paid for care is going to lawyers."

What's more, providers point out, lawsuits and the negative ads run by law firms to solicit cases dampen the morale of existing staff and turn off new recruits. "They're scaring away potential new nurses and CNAs from nursing homes," says Bodo. "I don't know where it's all going to end up."

All this might be worth the price if the lawsuits and claims put bad operators out of business and improved the overall quality of care. Consumer representatives and plaintiff's lawyers like Wilkes sometimes make that claim, but provider representatives refute it. "Florida nursing home statistics indicate that nursing homes have gotten worse over the years," says Bodo. "If that is the case, that proves to me that all this litigation is not improving the quality of nursing homes. If anything, it hurts. It hurts because we're losing good staff, and we're losing money from the system that almost certainly would have gone to care."

"Maybe somebody else can figure out who's going to pay for the patient care after the lawyers are paid," says Calkin, "but I don't see it."

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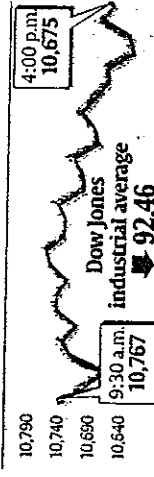
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Thursday, April 20, 2000

## Moneyline

### Wednesday markets



Index	Close	Change
Nasdaq composite	3706.41	87.16
Standard & Poor's 500	1427.47	14.14
Treasury bond, 30-year yield	5.84%	0.07
Treasury bond, 10-year yield	5.98%	0.07
USA TODAY Internet 100	152.37	4.04
e-Business 50	202.43	7.23
e-Consumer 50	98.78	0.63

Sources: USA TODAY research, MetLife General Financial Services  
board with currencies, 4U

### Asia markets (as of 2 a.m. ET today)

Market	Value and Points	Change	Percentage
Tokyo	18,959.32	-127.30	-0.7%
Hong Kong	15,330.56	-96.64	-0.6%
Singapore	2072.56	+13.65	+0.7%
Jakarta	520.83	-5.47	-1.0%
Seoul	7612.5	+6.17	+0.8%

Currencies: Wednesday  
Tied in (P. 10, 11)

### Business travel

By David Field

**Real time:** Cathay Pacific's Web site now gives flight status, arrival times. [www.cathay-usa.com](http://www.cathay-usa.com).

**Love steps:** American starts non-stop flights May 1 between Dallas Love Field and both Los Angeles and Chicago using Continental Express gates 41 and 42 at Love. American will use its own gates starting May 28. Its American Eagle unit will end regional jet flights

Fewest flight cancellations in February

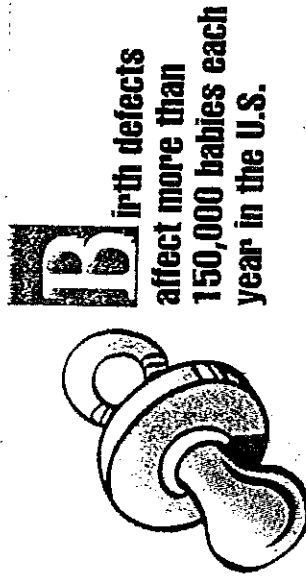
Southwest	11%
Continental	16%
TWA	21%
Delta	3.0%
Northwest	3.1%

Sources: Department of Transportation  
By Nancy E. Mullins, USA TODAY

April 30 between Love Field and Austin.

**Private:** FlightServ.com offers fully refundable one-way fares of \$499 until May 1 on its new private jet flights between Atlanta's Dekalb/Peachtree airport and Teterboro, N.J., near New York City. It also gives free ground transportation into each city during the promotion.

**Flying:** Delta began daily non-stops between New York's JFK and Lyon, France.



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## Insurers raise rates or refuse to cover nursing homes

### Facilities may close even as need for elderly care rises

By Julie Appleby  
USA TODAY

Nursing homes, already struggling with bankruptcy, staff shortages and questions about the quality of care, have a new problem: getting insurance. Liability insurers in many parts of the country are raising rates or refusing to write policies for nursing homes, citing losses stemming from lawsuits. The spillover also is affecting homes that have not been brought to court.

"It's getting tough in all states to get policies," says Ruth Kilduff of Marsh, an insurance brokerage. "I have a client in the Midwest whose homes have never been sued, and he experienced a 600% increase in liability premiums this year." Industry leaders warn that the rising cost and scarcity of insurance may force some homes to close.

"This will drive perfectly fine providers out of the business at a time when demand is clearly going up," says Charles Roadman, head of the American Healthcare Association, the industry's lobbying group.

But patient advocate groups and trial lawyers say the industry is hyping the problem to push for legal reforms. "It's real easy to point fingers and blame the lawsuits, but it was the poor

care that resulted in the lawsuits to begin with," says Barbara Hengstbeck of the Coalition to Protect America's Elders.

The insurance scarcity is most acute in Florida and Texas, where major carriers have fled the state or are substantially raising premiums. They blame laws they say foster lawsuits against nursing homes.

Fewer than three major carriers now serve Florida, and one large carrier, Caliber One, has canceled existing policies for at least 29 homes, according to the Florida Healthcare Association.

Nationally, many of the largest carriers have put a temporary moratorium on writing nursing home business, Kilduff says. For example, the St. Paul Cos., the nation's largest provider of medical

malpractice coverage, has stopped writing nursing home liability policies in 33 states.

"Most of the traditional carriers like St. Paul are scaling back," says Steve Nelson, vice president of underwriting for St. Paul. "(Liability) policies have been extremely unprofitable for four years."

In Florida, the nursing home industry wants to change state law to reduce monetary awards in lawsuits and place nursing homes under the same malpractice rules as doctors and hospitals.

Patient advocates say they are willing to agree to some changes in the medical malpractice statutes, if the industry boosts staffing. Currently, the law requires only that homes provide enough staff to give 1.7 hours of care to each resident a day.



## Nissan to develop full size



## John Wickham

**From:** Dale Fenwick  
**Sent:** Monday, April 03, 2000 3:30 PM  
**To:** John Wickham  
**Subject:** Driven Out - As nursing home liability costs soar, exiting carriers spur market crisis.

# Driven Out

**As nursing home liability costs soar, exiting carriers spur market crisis.**

by Leslie Werstein Hann

Skyrocketing general and professional liability insurance loss costs for nursing homes are reaching crisis proportions in many parts of the United States. The problem is most acute in Florida, where at least 10 carriers have left the state or stopped writing new business.

Loss costs for the long-term-care industry have increased at an unprecedented annual rate of 20% in most states over the past five years and 37% in Florida, according to an actuarial analysis prepared by Aon Worldwide Actuarial Solutions for the Florida Health Care Association. The study examined the loss costs for 12 for-profit nursing home chains representing 35% of licensed nursing home beds in Florida and 20% of those in the United States.

"This is a crisis industrywide and countrywide, but in Florida the trends are outrageous," said study co-author Theresa W. Bourdon, managing director and actuary with Aon Worldwide Actuarial. The average loss cost per occupied bed in 1999 was \$6,283 in Florida, \$2,456 in Texas, \$770 in California and \$514 in all states excluding Florida and Texas.



losscost.

The loss cost is the annual cost per occupied bed of settling and defending claims. Almost half of the total amount of loss costs in the Florida long-term-care industry go directly to lawyers who prosecute or defend the nursing homes, according to the Aon study.

The loss costs have driven most admitted writers from the market in several states, particularly Florida, Texas, Alabama and California.

"It's the purest example of an underwriting crisis that we have today," said Corbette Doyle, chief executive officer for Aon Healthcare Alliance, Nashville, Tenn.

After several years of scaling back from 10% to about 2% of its medical-services book, The St. Paul Cos. last year decided not to renew policies for almost all of the skilled nursing facilities that it wrote. But the company recently started tiptoeing back into 17 states-mostly in the North and Upper Midwest-that have performed better than the rest of the United States, said Steve Nelson, vice president of underwriting for the medical services division.

"Yeah, we're back in the market a little bit in a handful of states, but we're continuing with aggressive rate activity, we're continuing to be extremely selective and we're continuing to nonrenew business in the other 33 states," Nelson said. St. Paul is monitoring those markets closely, because "the environment could change tomorrow."

"We have really struggled for three or four years with overall levels of profitability," Nelson said. "It's kind of hard to look out there and be optimistic for the future."

Brian Lindahl, vice president of the long-term care division of Brown & Brown Inc., a broker based in Daytona Beach, Fla., will try to persuade two Lloyd's syndicates and another carrier to write liability coverage for Florida nursing homes. "My days are spent attracting new markets more than attracting new business," Lindahl said.

## **Larger Financial Crisis**

Insurance is one facet of a larger financial crisis facing long-term-care providers. When Integrated Health Services filed for Chapter 11 bankruptcy protection in February, it became the 1,651st U.S. nursing home to seek protection from its creditors, according to the American Health Care Association. The trade group attributed the problems to deep cuts in Medicare, combined with nursing staff shortages and escalating costs of litigation.

The litigation issue is especially acute in Florida and Texas, where strong patients' rights laws have invited a flurry of lawsuits on behalf of nursing home residents. In Florida, the law allows for the recovery of attorneys' fees in addition to punitive damages if a court finds that the nursing home infringed on the rights of the elderly resident. "Those two states started the crisis, and the fear from nursing home operators and insurers is that this will ripple throughout the nation," said Bourdon, who prepared the study with Sharon C. Dubin, assistant vice president and actuary.

If it does ripple throughout the United States, "our belief is the spread will be more gradual than rapid," said Richard Bucilla, executive vice president of Lexington Insurance Co., American International Group's excess-and-surplus writer in Boston. "We think we can keep ahead of it and price the product appropriately to do OK from an underwriting standpoint."

Nursing homes that Aon surveyed said Florida represented 10% of their operation and 40% of their losses. For-profit nursing home chains in Florida incur 23 claims per 1,000 occupied beds, with an average claim of \$278,637. That compares with seven claims per 1,000 and an average claim of \$112,351 for the rest of the United States, Bourdon said. The frequency of claims in Texas was much lower than in Florida, at nine per 1,000, but the average claim was nearly the same as in Florida at \$272,895.

## **Insurers Exit**

Insurers have responded to the high loss costs in the past two years by increasing reserves, exiting markets, not renewing business and raising both premiums and deductibles.

Matthew Mosher, assistant vice president in the property/casualty division of A.M. Best Co., said nearly all the companies that used to write nursing home liability are getting out of that business.

"But they will still write the workers' compensation and property coverage," Mosher said. "They cite the fact that given the increasing uncertainty of the courts and the growing number of cases, you simply cannot determine what an adequate rate should be for the liability coverage."

## **Question of Availability**

In February, Texas Insurance Commissioner Jose Montemayor approved a proposal to allow nonprofit nursing homes in the state to apply for coverage through the medical liability Joint Underwriting Association, since the number of admitted carriers offering coverage had dropped from eight in 1996 to three.

Ray Thomas, president of Bunker Hill Insurance Agency, a general agent for Gulf Insurance Group, disputed the notion of an availability crisis, as many companies continue to write in Texas. These include Stamford, Conn.-based General Star Indemnity Co., an excess and surplus lines carrier that is part of the Berkshire Hathaway Group, and Medmarc Mutual Insurance Co., Fairfax, Va., an insurer that specializes in products-liability insurance for medical equipment manufacturers.

The Florida market is down to two or three wholesalers providing coverage for nursing homes, Lindahl said, as even some of the opportunistic E&S carriers are leaving. In the past 12 to 18 months, premiums nationally have increased about 150%, Lindahl said. Premiums on his last 10 renewals increased 300% to 400%. At the same time, the trend has moved from first-dollar coverage to high deductibles. "We're paying considerably more for considerably less," he said.

Margaret Spalding monitors the markets monthly for Aon Healthcare Alliance. February's report lists eight carriers that have withdrawn entirely or stopped writing new business, including Employers Reinsurance Corp., Reliance National Insurance Co., The Doctors Co., USF Insurance Co., Agricultural Excess & Surplus and Admiral Insurance Co.

As carriers pulled out, Caliber One Indemnity Co., Blue Bell, Pa., saw its nursing home business grow to 40% of its casualty premium. Last month, the company stopped accepting new business, said Scott Bayer, vice president.

After drastically raising rates and retentions three years ago, AIG has written a small amount of nursing home business in the past six to nine months, Bucilla said. Phico Group walked away from every nursing home that wasn't affiliated with a

hospital. CNA Financial Corp., Zurich U.S. and Colony Insurance Co. are among the companies that have left Florida.

It's not just primary writers that have lost their appetite for nursing home business, St. Paul's Nelson said. "You call up any of the key treaty or facultative reinsurers, and they have no interest in doing anything on nursing homes," he said.

Barry Persofsky, president and chief executive officer of Phico, based in Mechanicsburg, Pa., said a major catastrophe looms on the horizon for nursing home business, and the availability of medical malpractice liability coverage for nursing homes is in jeopardy. "The larger facilities have the added pressure of operating with insufficient funding, resulting in stresses on the nurse-to-patient ratios," he said. "Nursing homes have become clear targets for the plaintiffs' bar, resulting in compensatory awards that appear to be more punitive than settlements or verdicts in the recent past."

### **Curbing Litigation**

The Aon actuarial study, completed in January, is a major weapon in the Florida Health Care Association's lobbying campaign for changes to the state's laws protecting the rights of nursing home residents. Bourdon planned to present the findings to legislative and gubernatorial staff.

Among the guarantees in the Florida law are the right to be informed, to be provided adequate care and to be treated with dignity. In addition to what it considers an unreasonably low burden of proof for vaguely worded rights, the nursing home industry objects to the potent remedy for violations, which includes actual damages, punitive damages and attorneys' fees. When the Florida Legislature capped punitive damages as part of tort reform last session, it excluded nursing homes, said Bob Asztalos, director of legislative affairs for the Florida Health Care Association.

Lawyers need to prove only that the infringement occurred to win fees, said association spokesman Ed Towey. "That's very easy to prove. What happens as a practical matter is that a claim that would normally settle in a hospital for \$10,000 can be many, many more times that in a nursing home case," he said. "There are so many different types of claims under so many different theories and under such low a standard of evidence that it presents to an insurer an almost incalculable risk."

The association is pushing for changes to the law so that suits related to medical services in a nursing home would fall under the legal procedures for medical malpractice rather than under the statutes governing patients' rights, Asztalos said.

### **Quality of Care**

Towey disputes the argument from plaintiffs' lawyers and policymakers that the high level of claims and large verdicts against nursing homes reflect poor quality of care. "They say you wouldn't have lawsuits if you didn't have the problems," he said. "But if you look at federal statistics that measure quality of care, Florida is above, not below, the national average."

Doyle agreed, noting that some of her nursing home clients that were hit hardest by lawsuits received the highest marks for clinical care from state inspectors. An elderly resident continues to live in a nursing home that paid her a \$90 million judgment after she walked off alone, fell and broke her hip. "Her family was happy enough with the care she receives to keep her there," Doyle said. "The issue of claim costs in Florida and Texas are not directly correlated to quality of care."

### **Private vs. Public Financing**

In 1998, nursing homes received 46% of their funding from Medicaid, the federal and state health program for low-income people, and 12% from Medicare. Private health insurance, including long-term care, paid for 5%, while individuals and families picked up the remaining 33%, according to the U.S. Health Care Financing Administration.

To Stephen A. Moses, president of the Center for Long Term Care Financing, Seattle, the crisis in financing and quality of care at nursing homes could be averted if people bought long-term-care insurance rather than relying on Medicaid, which pays on average only 80% of what nursing homes charge private-pay patients.

"The fundamental problem is we are relying on public financing when public financing is inadequate," Moses said. He accused elder-law attorneys of improperly helping affluent people shift their assets to appear impoverished so they can qualify for Medicaid. Then, when Medicaid reimbursements to nursing homes fall because the program was never intended to support so many people, the quality of care suffers. The lawsuits follow, and claims costs increase.

"What is often missed is attorneys are not just working the front end. Once the damage is done and the nursing homes can't afford quality care...now they make money on the back end by litigating for inadequate care," Moses said.

Private rather than public financing of nursing homes would go a long way toward improving the situation, he said. But only 7% of senior citizens and very few baby boomers have bought long-term-care insurance, Moses said.

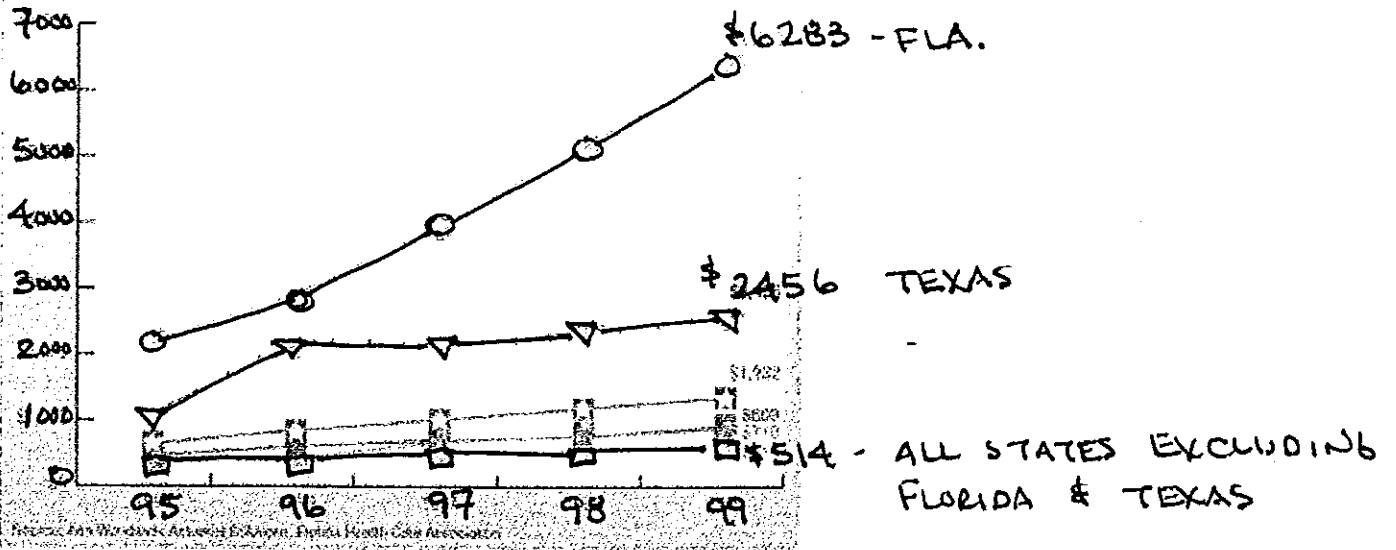
"People don't buy it because they don't think they need it, and they don't think they need it because the government conveys the message that you can avoid the risk and the government is going to pay," Moses said.

Source: Best's Review, March 2000

## Loss Cost Differences

The cost per bed of general and professional liability losses are materially higher in Florida than in the rest of the United States.

○ Florida only      □ California      ▲ All states excluding Florida  
 ▼ Texas only      ☆ All states      △ All states excluding Florida and Texas



## The Palm Beach Post

# The Palm Beach Post

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## Post

## News

## Ruling limits families' right to sue nursing homes

By Mary Ellen Klas, Palm Beach Post Capital Bureau  
Friday, May 26, 2000

TALLAHASSEE -- An appeals court has watered down a state law protecting nursing home residents by ruling that if a resident dies after suing a nursing home for abuse, his lawsuit could die with him.

The 4th District Court of Appeal in West Palm Beach ruled in a rare 11-0 decision Wednesday that the legislature never intended to allow lawsuits filed under the 1984 Patient's Bill of Rights to continue beyond the life of a victim.

The ruling means that if a resident is raped, beaten, drugged or suffers other abuses at a nursing home and survives but dies of a different ailment, the family of that resident cannot sue under the 1984 law. The family would be forced to seek remedy under harder-to-apply negligence and wrongful death statutes.

"The problem is most people who are in nursing homes are frail and elderly and their life expectancy is not long, but many suffer from abuse that does not kill them," said Ken Connor, a Tallahassee lawyer who has specialized in suing

Friday, May 26

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Tallahassee lawyer who has specialized in suing nursing homes. "This will encourage defendants, who are notorious for delay, to delay even more with the hopes the resident won't survive."

Trial lawyers said the ruling guts patient protections and predicted it will force lawyers in Palm Beach and Broward counties and the Treasure Coast to reconsider or drop many suits pending against area nursing homes. It also will have a chilling effect on the cases they are willing to take, they claimed, because homes will drag out a case and no longer have an incentive to settle.

The 1984 law establishes a list of rights for nursing home patients. As an incentive for lawyers to take cases on behalf of elderly patients who have no income or prospect of winning economic damages, the law also allows lawyers to collect fees whether they win or lose.

The 4th DCA case was brought by the wife of Gladstone Knowles, a 70-year-old Fort Lauderdale resident who entered the Washington Manor nursing home in March 1995 while he healed from hip replacement surgery.

For the next six weeks, Knowles was kept immobilized in a vest and sedated. His arms and legs became locked in a bent position — a condition his lawyers claim resulted from lack of motion. He developed sores that caused him great pain but was given no pain medication.

Within 67 days, Knowles was hospitalized because the sores had become infected. His condition was so bad that hospital staff was convinced he had been abused and called police to investigate.

After 26 days in the hospital, Knowles died of a heart attack.

"We can't prove what killed him, but we can prove he was chemically abused and illegally restrained and held in his bed for 24 days," said Jeffrey Fenster, the attorney for Knowles' wife. "The decision leaves the most frail and the weakest people totally defenseless against the large national nursing home giants."

The decision overturned a lower court and a previous 4th DCA ruling.

Lawyers for Beverly Enterprises, the nation's largest nursing home chain which owns

## The Palm Beach Post

largest nursing home chain which owns Washington Manor, declined to comment on the case but said they were pleased with the ruling.


"The language in the statute was crystal clear," said Hugh Wood, whose Miami law firm represented Beverly in the case and has long argued that "Bill of Rights" cases should not be allowed to continue if a patient dies.

The ruling comes on the heels of a legislative session in which nursing homes attempted to limit the kinds of lawsuits individuals could file against the industry but their efforts were rebuffed by reluctant legislators.

"No politicians have accomplished what the court accomplished in one fell swoop," said Fenster, who is going to try to get the Supreme Court to hear the case. "We'll now have to complete private autopsies for every individual who dies in a nursing home -- to see if any abuse they suffered caused their death."

mary\_ellen\_klas@pbpost.com

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**The Alliance Foundation**  
***Housing & Health Care***

July 27, 2000

Mr. Steve Smith  
Acting Executive Director  
Sumter County Industrial Development Authority  
Sumter County, FL.

VIA FACSIMILE

RE: Sumter County Industrial Development Authority  
Health Care Facilities Revenue Bonds  
(WeCare Nursing Center Project)  
Series 1999A and Series 1999B

Dear Mr. Smith:

As a follow up to your recent telephone conversations with my office and Chauncey Lever of Foley & Lardner ("Bond Counsel"), this letter shall serve to confirm The Alliance Foundation for Housing and Health Care Inc.'s ("Borrower") request that a meeting of the Sumter County Industrial Development Authority ("Issuer" or "Authority") be convened to consider an amendment to the requisite documents governing the above referenced bonds and an Issuer Resolution that would provide a remedy for the Borrower's current difficulty with covenants in the Loan Agreement and Mortgage related to maintenance of general liability and professional liability insurance coverage ("GL/PL").

The specific event which has arisen and is the direct cause for the proposed amendments is the lack of affordable GL/PL for skilled nursing facilities ("SNF") located in the State of Florida, at this time. We have attached an Executive Summary for the Authority describing current market conditions for SNF GL/PL in Florida, its effect on WECARE Nursing Center ("WeCare") and the proposed modifications to the bond documents which would provide the Borrower with GL/PL flexibility. Under separate cover, it is my understanding that Foley & Lardner has sent you copies of the proposed amendments and Issuer Resolution.

It is my further understanding that Greenwich Partners is contacting each of the current bond holders and will be furnishing you a copy of correspondence confirming each bondholder's written response to the amendment request.

I plan on being in Wildwood, FL. from Friday, July 28 through Tuesday, August 1. Should you desire, I would be happy to meet with you at that time and discuss this matter in further detail. Per your request, I will bring you a copy of our financial statements as well as a marketing piece which provides an overview of the company and its management.

Mr. Steve Smith  
July 27, 2000  
Page 2 of 2

I will call you later today to confirm your receipt of this facsimile transmission and answer any questions you might have. Separately, I will also make myself available to meet with you and / or the members of the Issuer, as you deem appropriate. Your cooperation and assistance in the handling of this matter are greatly appreciated.

Sincerely,



Robert P. Hostler  
President

**Attachments**

Cc: Robert L. Clapp, President (United Methodist Homes)  
Chauncey W. Lever, Jr., Esq. (Foley & Lardner)  
Jeffrey M. McFarland, Esq. (Foley & Lardner)  
Sumner B. Miller, V.P. (Greenwich Partners)  
Brian M. Ross, Esq. (Ross & Assoc.)

**The Alliance Foundation for Housing and Health Care, Inc.**  
**10387 Main Street; Suite 200 Fairfax, Virginia 22030**  
**TEL: (703) 359 - 7200 FAX: (703) 359 - 0340**

**EXECUTIVE SUMMARY  
FOR  
SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**

**Current Market Conditions**

Currently, general liability and professional liability insurance (GL/PL) is cost-prohibitive for skilled nursing facilities in the State of Florida. Insurers have increased premiums and deductibles significantly in the past year and in many cases have refused to renew existing policies due to a significant increase in Florida nursing home litigation.

The Florida Insurance Commission conducted a study in April of this year and determined that of the 25 companies providing GL/PL in Florida, six companies - representing more than half of the beds covered by GL/PL in Florida - reported canceling coverage or providing coverage through unregulated "surplus line" affiliates. Only eleven carriers are still writing new policies in Florida, and the majority of these carriers are deemed "surplus line" carriers. Surplus line carriers are unregulated by the State Insurance Commission and can raise rates without the State's permission.

**Effect of Current Market Conditions on WeCare Nursing Center**

Following the lead of its competitors, the Borrower's GL/PL provider, Caliber One, elected not to renew coverage of the GL/PL for the WECARE Nursing Center (the "Facility"). The election not to renew was not due to any unfavorable experience with the Borrower or the Facility. No claims under the GL/PL policy were filed during the period covered by the policy and no claims have been filed against the Borrower since the renewal date. Nevertheless, Caliber One elected not to renew coverage because of unfavorable market conditions in the nursing home industry in Florida.

The Borrower's GL/PL premium for the period from April 1, 1999 through March 31, 2000 was \$65,000 per year for the coverage required by the bond documents. The Borrower's Insurance Consultant bid replacement insurance to 14 different carriers. It received bids from only two carriers. These carriers subsequently withdrew their bids. The overwhelming majority of those who declined coverage cited "no longer writing this class of business (in Florida)" as the reason.

The Borrower then identified replacement GL/PL that meets the requirements of the bond documents through a surplus line carrier at a premium cost of approximately \$475,000 per annum, a nearly 600% increase. Additionally, the Borrower would be required to post a non-cancelable \$250,000 letter of credit to fund the first \$250,000 of claims (i.e., a \$250,000 deductible). The premium for this coverage is sufficiently large that payment of the premium

would likely create an event of default under the bond documents. For instance, payment of the premium would likely cause the debt service coverage ratio to fall below 1.20x and curtail the ability of the Facility to generate sufficient cash flow to meet the Days-Cash-on-Hand covenant.

### Proposed Solution

The Borrower requests that the Issuer approve the execution and delivery by the Issuer of Amendment No. 1 to Loan and Security Agreement (the "Loan Agreement Amendment"), Amendment No. 1 to Mortgage and Security Agreement (the "Mortgage Amendment") and Supplement No. 1 to Trust Indenture (the "Indenture Supplement") to provide the Borrower with the flexibility to manage its GL/PL needs during the insurance crisis in Florida.

The Loan Agreement Amendment and Mortgage Amendment replace the fixed amount of GL/PL currently required in the bond documents with a more flexible standard based on the Borrower's ability to obtain the insurance without violating other covenants, such as the debt service coverage ratio and Days-Cash-On-Hand covenants. The bondholders must each year approve these more flexible standards. If the bondholders do not consent to a continuation of the amendments in any year, the GL/PL amounts currently required by the Loan Agreement and the Mortgage will once again apply to the Borrower.

The Indenture Supplement creates a new fund to be held by the Trustee which will serve as an insurance reserve. Because of current market conditions, the Borrower may carry little or no GL/PL, depending on the cost of premiums in the State of Florida. To the extent GL/PL is unaffordable, amounts that would otherwise be spent on premiums will be placed in the insurance reserve to either pay or defend claims or purchase insurance if it again becomes affordable.

The amount that will be deposited in the insurance reserve for the period ending March 31, 2001 is the amount the Borrower would have spent on premiums from April 1, 2000 through March 31, 2001, or approximately \$75,000. For each of the next four years, deposits will be made to the insurance reserve in amounts which equal the amounts already budgeted for GL/PL during those years. Thereafter, deposits will be made to the insurance reserve in amounts which are 110% of the prior year's deposits. The Borrower may withdraw portions of the insurance reserve to obtain affordable GL/PL.

Moneys on deposit in the insurance reserve will remain in the reserve to pay or defend claims even if the bondholders elect not to continue the effectiveness of the Loan Agreement Amendment and the Mortgage Amendment. However, no additional deposits will be made to the insurance reserve after the bondholders elect not to continue the effectiveness of the Loan Agreement Amendment and the Mortgage Amendment.

# The Alliance Foundation

## *Housing & Health Care*

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Sincerely,

A handwritten signature in black ink, appearing to read "Robert P. Hostler", with a stylized flourish at the end.

Robert P. Hostler  
President

Attachments

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FOLEY & LARDNER  
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## FACSIMILE TRANSMISSION

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Diana Lee	(352) 793-3003	(352) 793-2339

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Operator:	Time Sent:	Return Original To: Chauncey W. Lever, Jr.
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## FOLEY &amp; LARDNER

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JACKSONVILLE  
LOS ANGELES  
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WASHINGTON, D.C.  
WEST PALM BEACH

WRITER'S DIRECT LINE  
904-359-8700

EMAIL ADDRESS  
clever@foleylaw.com

CLIENT/MATTER NUMBER  
076481/0104

July 6, 2000

VIA OVERNIGHT DELIVERY

Sumter County Industrial Development Authority  
Attn: Charles E. Todd, Chairman  
Suite 100  
107 Bushnell Plaza  
Bushnell, FL 33513

Re: Sumter County Industrial Development Authority Health Care Facilities  
Revenue Bonds (WeCare Nursing Center Project), Series 1999 (the "Bonds")

Ladies and Gentlemen:

We acted as bond counsel in connection with the issuance of the Bonds on March 31, 1999. The Alliance Foundation for Housing and Health Care, Inc. (the "Borrower") has asked us to request a meeting of the Authority to consider a proposed resolution that would approve the modification of certain insurance requirements in the existing Loan and Security Agreement (the "Loan Agreement") and Mortgage and Security Agreement (the "Mortgage") relating to the Bonds, each between the Borrower and the Authority. The proposed resolution and forms of amendment are enclosed for the Authority's consideration.

The proposed amendments would replace provisions in the Loan Agreement and the Mortgage that require the Borrower to maintain specified levels of professional liability insurance and public liability insurance, respectively, with provisions that provide the Borrower with more flexible insurance requirements.

Section 8.8 of the Trust Indenture dated as of March 1, 1999 (the "Indenture"), between the Authority and SunTrust Bank, as Trustee, permits the Borrower, the Trustee and the Authority to amend and modify the Loan Agreement and the Mortgage, upon terms and conditions described therein, including the approval of holders of a majority of the outstanding

FOLEY & LARDNER

Sumter County Industrial Development Authority

July 6, 2000

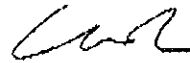
Page 2

principal amount of the Bonds. The amendments and modifications will be made in compliance with the Indenture.

We respectfully request that the Authority schedule a meeting to approve the enclosed proposed resolution and the enclosed amendments to the Loan Agreement and Mortgage at its earliest possible convenience.

If you have any questions about the foregoing matters or the enclosed documents, please do not hesitate to call us. We appreciate very much your consideration of this matter.

Very truly yours,



Chauncey W. Lever, Jr.

Enclosure(s)

cc: Randall N. Thornton  
Robert P. Hostler  
Brian M. Ross  
Sumner Miller

F&amp;L Draft of July 6, 2000

## RESOLUTION

A RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT TO THE LOAN AND SECURITY AGREEMENT DATED AS OF MARCH 1, 1999, BETWEEN THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC. (THE "BORROWER") AND SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT TO THE MORTGAGE AND SECURITY AGREEMENT DATED AS OF MARCH 1, 1999, FROM THE BORROWER TO THE AUTHORITY; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Authority has previously entered into a Loan and Security Agreement dated as of March 1, 1999 (the "Loan Agreement") with The Alliance Foundation for Housing and Health Care, Inc. (the "Borrower"), pursuant to which the Authority loaned the proceeds of its Health Care Facilities Revenue Bonds (WeCare Nursing Center Project), Series 1999A and its Taxable Health Care Facilities Revenue Bonds (WeCare Nursing Center Project), Series 1999B (collectively, the "Bonds") to the Borrower;

WHEREAS, the proceeds of the loan were used to, among other things, finance the costs of acquiring, equipping and renovating certain skilled nursing facilities owned and operated by the Borrower (the "Facility");

WHEREAS, to secure the Borrower's obligations under the Loan Agreement, the Borrower provided the Authority with a Mortgage and Security Agreement dated as of March 1, 1999 (the "Mortgage") with respect to the Facility and other property owned by the Borrower;

WHEREAS, to secure the Bonds, the Authority assigned its right, title and interest in and to the Loan Agreement and the Mortgage (except with respect to certain unassigned rights) to SunTrust Bank (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee");

WHEREAS, because of market conditions in the nursing care industry, the Borrower desires to modify and amend certain provisions in the Loan Agreement and the Mortgage requiring the Borrower to maintain specified levels of professional liability insurance and public liability insurance, respectively;

WHEREAS, Section 8.8 of the Trust Indenture dated as of March 1, 1999, between the Authority and the Trustee, permits the Borrower, the Trustee and the Authority to amend and modify the Loan Agreement and the Mortgage, upon terms and conditions

described therein, and the amendments and modifications will be made in compliance therewith;

NOW THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY:

SECTION 1. AUTHORIZATION OF EXECUTION AND DELIVERY OF AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT. The amendment of the Loan Agreement, pursuant to an Amendment No. 1 to Loan and Security Agreement substantially in the form attached hereto as Exhibit A (the "Loan Agreement Amendment"), with such changes, corrections, insertions and deletions as may be approved by the Chairman of the Authority, such approval to be evidenced conclusively by his execution thereof, is hereby approved and authorized; the Authority hereby authorizes and directs the Chairman of the Authority to date and execute the Loan Agreement Amendment, and to deliver the Loan Agreement Amendment to the Trustee and the Borrower; and all of the provisions of the Loan Agreement Amendment, when executed and delivered by the Authority as authorized herein, and by the Borrower and the Trustee, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

SECTION 2. AUTHORIZATION OF EXECUTION AND DELIVERY OF AMENDMENT NO. 1 TO MORTGAGE AND SECURITY AGREEMENT. The amendment of the Mortgage, pursuant to an Amendment No. 1 to Mortgage and Security Agreement substantially in the form attached hereto as Exhibit B (the "Mortgage Amendment"), with such changes, corrections, insertions and deletions as may be approved by the Chairman of the Authority, such approval to be evidenced conclusively by his execution thereof, are hereby approved and authorized; the Authority hereby authorizes and directs the Chairman of the Authority to date and execute the Mortgage Amendment, and to deliver the Mortgage Amendment to the Trustee and the Borrower; and all of the provisions of the Mortgage Amendment, when executed and delivered by the Authority as authorized herein and by the Borrower and the Trustee, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

SECTION 3. AUTHORIZATION OF EXECUTION OF OTHER CERTIFICATES AND OTHER INSTRUMENTS. The Chairman and the Secretary of the Authority are hereby authorized and directed, either alone or jointly, to execute and deliver certificates of the Authority certifying such facts as Authority's Counsel or Bond Counsel shall require in connection with consummation of the transactions described above, and to execute and deliver such other instruments, as shall be necessary or desirable to consummate the transactions hereby authorized.

SECTION 4. NO PERSONAL LIABILITY. No representation, statement, covenant, warranty, stipulation, obligation or agreement herein contained, or contained in the Loan Agreement Amendment or Mortgage Amendment, or any certificate or other instrument to be executed on behalf of the Authority in connection with the transactions described above, shall be deemed to be a representation, statement, covenant, warranty, stipulation, obligation

or agreement of any member, officer, employee or agent of the Authority in his or her individual capacity, and none of the foregoing persons nor any officer of the Authority executing the Loan Agreement Amendment or the Mortgage Amendment, or any certificate or other instrument to be executed in connection with the transactions described above, shall be liable personally thereon or be subject to any personal liability or accountability by reason of the execution or delivery thereof.

SECTION 5. PREREQUISITES PERFORMED. All acts, conditions and things relating to the passage of this Resolution, to the execution and delivery of the Loan Agreement Amendment and the Mortgage Amendment required by the Constitution or other laws of the State, to happen, exist and be performed precedent to the passage hereof, and precedent to the execution and delivery of the Loan Agreement Amendment and the Mortgage Amendment, have either happened, exist and have been performed as so required or will have happened, will exist and will have been performed prior to such execution and delivery.

SECTION 6. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions, and shall in no way affect the validity of any of the other provisions hereof.

SECTION 7. REPEALING CLAUSE. All resolutions or parts thereof in conflict with the provisions herein contained are, to the extent of such conflict, hereby superseded and repealed.

SECTION 8. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this \_\_\_\_ day of July, 2000.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Secretary

F&L Draft of July 6, 2000

**EXHIBIT A**

**Amendment No. 1 to Loan and Security Agreement**

F&L Draft of July 6, 2000

**AMENDMENT NO. 1**

to

**LOAN AND SECURITY AGREEMENT  
DATED AS OF MARCH 1, 1999**

between

**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**

and

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.**

assigned to

**SUNTRUST BANK**  
**(formerly SunTrust Bank, Central Florida, National Association), as trustee**

Relating to:

**Sumter County Industrial Development Authority**  
**Health Care Facility Revenue Bonds**  
**(WeCare Nursing Center Project), Series 1999**

Dated as of July 1, 2000



**AMENDMENT NO. 1 TO  
LOAN AND SECURITY AGREEMENT**

This AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of July 1, 2000, among the SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a public body corporate and politic duly created and validly existing under the laws of the State of Florida (the "Issuer"), THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC., a Texas not for profit corporation duly organized and validly existing under the laws of the State of Texas (the "Borrower"), and SUNTRUST BANK (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee").

A. Reference is made to the Loan and Security Agreement dated as of March 1, 1999, between the Borrower and the Issuer (the "Loan Agreement"), pursuant to which the Issuer loaned the proceeds of its Health Care Facility Revenue Bonds (WeCare Nursing Center Project), Series 1999A and Series 1999B (the "Bonds") to the Borrower for the purposes of, among other things, financing the costs of acquiring, equipping and renovating certain health care facilities owned and operated by the Borrower.

B. The Issuer assigned its right, title and interest in and to the Loan Agreement (other than Unassigned Rights) to the Trustee to secure the Bonds.

C. The Borrower now wishes to amend certain provisions of the Loan Agreement as they relate to professional liability insurance required to be maintained by the Borrower.

D. A majority in aggregate principal amount of the Outstanding Bonds have approved and consented to this Amendment and pursuant to such approval and consent, Section 8.8 of the Indenture permits the Trustee to execute and deliver this Amendment.

NOW THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, the parties hereto agree as follows:

1. Use of Defined Terms. Capitalized terms used in this Amendment shall have the meanings set forth in the Master List of Definitions attached to the Loan Agreement as Exhibit A.

2. Amendment to Definition of "Required Professional Liability Insurance Coverage". The definition of "Required Professional Liability Insurance Coverage" contained in the Master List of Definitions attached to the Loan Agreement as Exhibit A is hereby amended in its entirety to read as follows:

**"Required Professional Liability Insurance Coverage"** means professional liability (or similar) insurance insuring the Issuer, the

F&amp;L Draft of July 6, 2000

Trustee and the Borrower against the liability for death, injury, loss or damage occurring in the examination, diagnosis, treatment or care of any person, which insurance shall be in such amounts as, in the Borrower's judgment, are adequate to protect the Borrower, but only to the extent that obtaining such insurance is financially feasible for the Borrower and the Facility and will permit the Borrower to otherwise perform and maintain its obligations and covenants under the Loan Agreement, the Notes and the Mortgage.

3. Amendment to Section 5.20 - Professional Liability Insurance. Section 5.20 of the Loan Agreement is hereby amended in its entirety to read as follows:

Section 5.20 Professional Liability Insurance. The Borrower shall maintain at its expense the Required Professional Liability Insurance Coverage. An Insurance Consultant shall review all insurance coverage provided for in this Section 5.20 no less than annually. If the Insurance Consultant makes recommendations for the increase of the Required Professional Liability Insurance Coverage then in effect, the Borrower shall comply with the recommendations of the Insurance Consultant, unless the Borrower determines in good faith that such recommendations, in whole or in part, are not in the best interests of the Borrower and the Facility when taking into account the impact that implementing such recommendations will have on the financial feasibility of the Borrower and the Facility and the Borrower's ability to perform and maintain its obligations and covenants under this Loan Agreement, the Notes and the Mortgage. All insurance shall be obtained and maintained either by means of policies with generally recognized, responsible insurance companies or in conjunction with other companies through an insurance trust or other arrangements satisfactory to an Insurance Consultant acceptable to the Trustee, and all such companies are to be qualified to do business in the State. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than thirty (30) days' advance written notice to the Trustee or such shorter period of notice as shall be satisfactory to the Trustee. The Borrower shall deposit with the Trustee certificates or other evidence, satisfactory to the Trustee, that (i) the provisions of this Section 5.20 have been complied with, describing the Required Professional Liability Insurance Coverage then in effect and (ii) all premiums on Required Professional Liability Insurance Coverage have been paid in full. If there is a change in the amount of Required Professional Liability Insurance Coverage maintained by the Borrower, the Borrower shall furnish the Trustee with notice and a description of any such change. The Borrower shall file with the Trustee a copy of any claim in excess of \$100,000 it may make under the Required Professional Liability Insurance Coverage.

F&amp;L Draft of July 6, 2000

4. Effective Date. This Amendment shall be effective as of March 15, 2000.

5. No Other Modifications to Loan Agreement. Except as hereby expressly modified, the Loan Agreement shall be unchanged and shall remain in full force and effect, and the Borrower ratifies and reaffirms all of its obligations thereunder.

6. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Issuer, the Borrower and the Trustee have caused this Amendment to be duly executed in their respective names, all as of the date hereinbefore written.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

THE ALLIANCE FOUNDATION  
FOR HOUSING AND HEALTH  
CARE, INC.

By: \_\_\_\_\_  
Robert P. Hostler, President

SUNTRUST BANK (formerly  
SunTrust Bank, Central Florida,  
National Association), as trustee

By: \_\_\_\_\_  
Patricia Smith, Assistant Vice  
President

**EXHIBIT B**

**Amendment No. 1 to Mortgage and Security Agreement**

F&L Draft of July 6, 2000

This instrument was prepared by  
and should be returned to:

Chauncey W. Lever, Jr.  
Foley & Lardner  
200 Laura Street  
Jacksonville, FL 32202

**AMENDMENT NO. 1**

to

**MORTGAGE AND SECURITY AGREEMENT  
DATED AS OF MARCH 1, 1999**

from

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.**

to

**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**

assigned to

**SUNTRUST BANK**  
(formerly SunTrust Bank, Central Florida, National Association), as trustee

Relating to:

**Sumter County Industrial Development Authority  
Health Care Facility Revenue Bonds  
(WeCare Nursing Center Project), Series 1999**

Dated as of July 1, 2000

THIS INSTRUMENT AND THE MORTGAGOR'S OBLIGATIONS SECURED  
HEREBY ARE GIVEN TO SECURE THE BONDS DESCRIBED ABOVE WHICH  
HAVE BEEN ISSUED PURSUANT TO CHAPTER 159, PARTS II AND III,  
FLORIDA STATUTES, AS AMENDED, AND THIS INSTRUMENT AND THE  
MORTGAGOR'S OBLIGATIONS ARE EXEMPT FROM FLORIDA  
DOCUMENTARY STAMP TAX AND FLORIDA INTANGIBLE PROPERTY TAX  
PURSUANT TO SECTION 159.31, FLORIDA STATUTES, AS AMENDED,

**AMENDMENT NO. 1 TO  
MORTGAGE AND SECURITY AGREEMENT**

This AMENDMENT NO. 1 TO MORTGAGE AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of July 1, 2000, among the SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a public body corporate and politic duly created and validly existing under the laws of the State of Florida (the "Issuer"), THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC., a Texas not for profit corporation duly organized and validly existing under the laws of the State of Texas (the "Mortgagor"), and SUNTRUST BANK (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee").

A. Reference is made to the Mortgage and Security Agreement dated as of March 1, 1999, from the Mortgagor to the Issuer (the "Mortgage"), which Mortgage secured the loan to the Mortgagor of the proceeds of the Issuer's Health Care Facility Revenue Bonds (WeCare Nursing Center Project), Series 1999A and Series 1999B (the "Bonds").

B. The Issuer assigned its right, title and interest in and to the Mortgage (except its right, title and interest in the Mortgage to the extent the Mortgage secures the Mortgagor's obligation with respect to Unassigned Rights) to the Trustee to secure the Bonds.

C. The Mortgagor now wishes to amend certain provisions of the Mortgage as they relate to public liability insurance required to be maintained by the Mortgagor.

D. A majority in aggregate principal amount of the Outstanding Bonds have approved and consented to this Amendment and pursuant to such approval and consent, Section 8.8 of the Indenture permits the Trustee to execute and deliver this Amendment.

NOW THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, the parties hereto agree as follows:

1. Use of Defined Terms. Capitalized terms used in this Amendment shall have the meanings set forth in the Mortgage.

2. Amendment to Definition of "Required Public Liability Insurance Coverage." The definition of "Required Public Liability Insurance Coverage" contained in the Mortgage is hereby amended in its entirety to read as follows:

**"Required Public Liability Insurance Coverage"** means commercial general liability insurance insuring against death or bodily injury in connection with the Site or Project Facilities and other property and operations of the Mortgagor, which insurance shall be in such amounts as, in the Mortgagor's judgment, are adequate to protect the

F&amp;L Draft of July 6, 2000

Mortgagor, its property and its operations, but only to the extent that obtaining such insurance is financially feasible for the Mortgagor and the Facility and will permit the Mortgagor to otherwise perform and maintain its obligations and covenants under the Loan Agreement, the Notes and the Mortgage.

3. Amendments to Section 3.3 - Insurance. The following portions of Section 3.3 of the Mortgage are hereby amended.

(a) The first paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

Section 3.3 Insurance. The Mortgagor shall keep the Mortgaged Property continually insured with Required Property Insurance Coverage. Subject to the fifth paragraph of this Section 3.3 with respect to Required Public Liability Insurance Coverage, an Insurance Consultant shall review all insurance coverage provided for in this Section 3.3 no less than annually and the Mortgagor covenants and agrees to comply with the recommendations of such Insurance Consultant. For purposes of establishing the amount of the Required Property Insurance Coverage, "replacement cost" of the Project Facilities shall be determined not less frequently than at three year intervals by an Engineer or competent appraiser, appraisal company or one of the insurers, in each instance, acceptable to the Trustee.

(b) The fifth paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

The Mortgagor shall keep and maintain Required Public Liability Insurance Coverage with reference to the Property. An Insurance Consultant shall review the Required Public Liability Insurance Coverage no less than annually. The Insurance Consultant may determine that the Required Public Liability Insurance Coverage shall be increased to such larger amounts as it determines to be appropriate in light of inflationary increases, the operations conducted by the Mortgagor and the insurance coverage carried by other entities conducting similar operations. If the Insurance Consultant makes recommendations for the increase of the Required Public Liability Insurance Coverage then in effect, the Mortgagor shall comply with the recommendations of the Insurance Consultant, unless the Mortgagor determines in good faith that such recommendations, in whole or in part, are not in the best interests of the Mortgagor and the Facility when taking into account the impact that implementing such recommendations will have on the financial feasibility of the Mortgagor and the Facility and the Mortgagor's ability to perform and maintain its obligations and covenants under this Loan Agreement, the Notes and the Mortgage.

F&amp;L Draft of July 6, 2000

(c) The sixth paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

All insurance shall be obtained and maintained either by means of policies with generally recognized, responsible insurance companies or in conjunction with other companies through an insurance trust or other arrangements satisfactory to an Insurance Consultant acceptable to the Trustee, and all such companies are to be qualified to do business in the State. The insurance to be provided may be by blanket policies. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than thirty (30) days' advance written notice to the Trustee or such shorter period of notice as shall be satisfactory to the Trustee. The Mortgagor shall deposit with the Trustee certificates or other evidence, satisfactory to the Trustee, that (i) the insurance required by the first four paragraphs of this Section 3.3 has been obtained and is in full force and effect, (ii) the provisions of this Section 3.3 with respect to Required Public Liability Insurance Coverage have been complied with, describing the Required Public Liability Insurance Coverage then in effect and (iii) all premiums on insurance required by this Section 3.3 have been paid in full. Prior to the expiration of any insurance required by the first four paragraphs of this Section 3.3, the Mortgagor shall furnish the Trustee with evidence satisfactory to the Trustee that such insurance has been renewed or replaced and that all premiums thereon have been paid in full and all insurance policies required hereby are in full force and effect. If there is a change in the amount of Required Public Liability Insurance Coverage maintained by the Mortgagor, the Mortgagor shall furnish the Trustee with notice and a description of any such change. The Mortgagor shall file with the Trustee a copy of any claim in excess of \$100,000 it may make under the Required Property Insurance Coverage.

4. Effective Date. This Amendment shall be effective as of March 15, 2000.

5. Recordation. The Mortgagor, at its expense, shall cause this Amendment to be timely recorded, registered and filed, in such manner and in such places as may be required, in order to establish, preserve and protect the lien of the Mortgage, as amended.

6. No Other Modifications to Mortgage. Except as hereby expressly modified, the Mortgage shall be unchanged and shall remain in full force and effect, and the Mortgagor ratifies and reaffirms all of its obligations thereunder.

7. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto on separate counterparts, each of which when so



F&L Draft of July 6, 2000

executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Issuer, the Mortgagor and the Trustee have caused this Amendment to be duly executed in their respective names, all as of the date hereinbefore written.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

THE ALLIANCE FOUNDATION  
FOR HOUSING AND HEALTH  
CARE, INC.

By: \_\_\_\_\_  
Robert P. Hostler, President

SUNTRUST BANK (formerly  
SunTrust Bank, Central Florida,  
National Association), as trustee

By: \_\_\_\_\_  
Patricia Smith, Assistant Vice  
President

**THE ALLIANCE FOUNDATION FOR HOUSING  
AND HEALTH CARE, INC.,  
WECARE NURSING CENTER DIVISION**

**FINANCIAL STATEMENTS**

**Year Ended March 31, 2000**

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FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3



MOORE STEPHENS  
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

ACCOUNTANTS' COMPILATION REPORT

To the Partners of  
The Alliance Foundation for Housing and  
Health Care, Inc., WeCare Nursing Center Division

We have compiled the accompanying statement of financial position of The Alliance Foundation for Housing and Health Care, Inc., WeCare Nursing Center Division as of March 31, 2000, and the related statement of activities and changes in net assets for the year then ended in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*Moore Stephens Lovelace, P.A.*

Certified Public Accountants

Orlando, Florida  
May 31, 2000

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.,  
WECARE NURSING CENTER DIVISION**

**STATEMENT OF FINANCIAL POSITION**

**March 31, 2000**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 272,884
Accounts receivable net of allowance for doubtful account of \$16,022	870,506
Supplies	38,116
Prepaid expenses	16,900
Due from affiliates	100,149
Due from home office	64,929
Other receivables	10,235
Current portion of assets whose use is limited	<u>667,538</u>
TOTAL CURRENT ASSETS	2,041,257

ASSETS WHOSE USE IS LIMITED	1,614,842
-----------------------------	-----------

**PROPERTY AND EQUIPMENT**

Land	182,000
Building and improvements	14,012,769
Furniture, fixtures and equipment	<u>463,713</u>
	14,658,482
Less accumulated depreciation	<u>(605,116)</u>
	14,053,366

**OTHER ASSETS**

Deferred charges, net of accumulated amortization of \$60,549	1,652,189
Deposits	<u>17,010</u>
	<u>1,669,199</u>

TOTAL ASSETS	<u>\$ 19,378,664</u>
--------------	----------------------

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 502,566
Accrued interest payable	537,538
Accrued liabilities	270,738
Accrued property taxes	30,000
Estimated third-party payor settlements	18,000
Current maturities of long-term debt	<u>130,000</u>

TOTAL CURRENT LIABILITIES	1,488,842
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LONG-TERM DEBT	14,747,915
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DUE FROM HOME OFFICE	500,000
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NET ASSETS - UNRESTRICTED	<u>2,641,907</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,378,664</u>
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See Accountants' Compilation Report.

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.,  
WECARE NURSING CENTER DIVISION**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**Year Ended March 31, 2000**

NET RESIDENT SERVICE REVENUE	\$ 8,091,636
EXPENSES	
Nursing services	3,562,422
Dietary	818,040
Activities and social services	152,717
Therapies and property operations	782,419
Housekeeping and laundry	321,189
General and administrative	1,070,803
Interest expense	1,075,149
Depreciation and amortization	<u>665,664</u>
TOTAL EXPENSES	<u>8,448,403</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(356,767)
NONOPERATING INCOME	
Contribution	2,880,000
Interest income	<u>118,674</u>
TOTAL NONOPERATING INCOME	<u>2,998,674</u>
CHANGE IN NET ASSETS	2,641,907
NET ASSETS - BEGINNING OF YEAR - UNRESTRICTED	<u>-</u>
NET ASSETS - END OF YEAR - UNRESTRICTED	<u>\$ 2,641,907</u>

See Accountants' Compilation Report.

# FOLEY & LARDNER

ATTORNEYS AT LAW

CHICAGO  
DENVER  
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CLIENT/MATTER NUMBER  
076481/0104

July 6, 2000

## VIA OVERNIGHT DELIVERY

Sumter County Industrial Development Authority  
Attn: Charles E. Todd, Chairman  
Suite 100  
107 Bushnell Plaza  
Bushnell, FL 33513

Re: Sumter County Industrial Development Authority Health Care Facilities  
Revenue Bonds (WeCare Nursing Center Project), Series 1999 (the "Bonds")

Ladies and Gentlemen:

We acted as bond counsel in connection with the issuance of the Bonds on March 31, 1999. The Alliance Foundation for Housing and Health Care, Inc. (the "Borrower") has asked us to request a meeting of the Authority to consider a proposed resolution that would approve the modification of certain insurance requirements in the existing Loan and Security Agreement (the "Loan Agreement") and Mortgage and Security Agreement (the "Mortgage") relating to the Bonds, each between the Borrower and the Authority. The proposed resolution and forms of amendment are enclosed for the Authority's consideration.

The proposed amendments would replace provisions in the Loan Agreement and the Mortgage that require the Borrower to maintain specified levels of professional liability insurance and public liability insurance, respectively, with provisions that provide the Borrower with more flexible insurance requirements.

Section 8.8 of the Trust Indenture dated as of March 1, 1999 (the "Indenture"), between the Authority and SunTrust Bank, as Trustee, permits the Borrower, the Trustee and the Authority to amend and modify the Loan Agreement and the Mortgage, upon terms and conditions described therein, including the approval of holders of a majority of the outstanding

Sumter County Industrial Development Authority

July 6, 2000

Page 2

principal amount of the Bonds. The amendments and modifications will be made in compliance with the Indenture.

We respectfully request that the Authority schedule a meeting to approve the enclosed proposed resolution and the enclosed amendments to the Loan Agreement and Mortgage at its earliest possible convenience.

If you have any questions about the foregoing matters or the enclosed documents, please do not hesitate to call us. We appreciate very much your consideration of this matter.

Very truly yours,



Chauncey W. Lever, Jr.

Enclosure(s)

cc: Randall N. Thornton  
Robert P. Hostler  
Brian M. Ross  
Sumner Miller



RESOLUTION

A RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT TO THE LOAN AND SECURITY AGREEMENT DATED AS OF MARCH 1, 1999, BETWEEN THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC. (THE "BORROWER") AND SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDMENT TO THE MORTGAGE AND SECURITY AGREEMENT DATED AS OF MARCH 1, 1999, FROM THE BORROWER TO THE AUTHORITY; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Authority has previously entered into a Loan and Security Agreement dated as of March 1, 1999 (the "Loan Agreement") with The Alliance Foundation for Housing and Health Care, Inc. (the "Borrower"), pursuant to which the Authority loaned the proceeds of its Health Care Facilities Revenue Bonds (WeCare Nursing Center Project), Series 1999A and its Taxable Health Care Facilities Revenue Bonds (WeCare Nursing Center Project), Series 1999B (collectively, the "Bonds") to the Borrower;

WHEREAS, the proceeds of the loan were used to, among other things, finance the costs of acquiring, equipping and renovating certain skilled nursing facilities owned and operated by the Borrower (the "Facility");

WHEREAS, to secure the Borrower's obligations under the Loan Agreement, the Borrower provided the Authority with a Mortgage and Security Agreement dated as of March 1, 1999 (the "Mortgage") with respect to the Facility and other property owned by the Borrower;

WHEREAS, to secure the Bonds, the Authority assigned its right, title and interest in and to the Loan Agreement and the Mortgage (except with respect to certain unassigned rights) to SunTrust Bank (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee");

WHEREAS, because of market conditions in the nursing care industry, the Borrower desires to modify and amend certain provisions in the Loan Agreement and the Mortgage requiring the Borrower to maintain specified levels of professional liability insurance and public liability insurance, respectively;

WHEREAS, Section 8.8 of the Trust Indenture dated as of March 1, 1999, between the Authority and the Trustee, permits the Borrower, the Trustee and the Authority to amend and modify the Loan Agreement and the Mortgage, upon terms and conditions

described therein, and the amendments and modifications will be made in compliance therewith;

NOW THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY:

SECTION 1. AUTHORIZATION OF EXECUTION AND DELIVERY OF AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT. The amendment of the Loan Agreement, pursuant to an Amendment No. 1 to Loan and Security Agreement substantially in the form attached hereto as Exhibit A (the "Loan Agreement Amendment"), with such changes, corrections, insertions and deletions as may be approved by the Chairman of the Authority, such approval to be evidenced conclusively by his execution thereof, is hereby approved and authorized; the Authority hereby authorizes and directs the Chairman of the Authority to date and execute the Loan Agreement Amendment, and to deliver the Loan Agreement Amendment to the Trustee and the Borrower; and all of the provisions of the Loan Agreement Amendment, when executed and delivered by the Authority as authorized herein, and by the Borrower and the Trustee, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

SECTION 2. AUTHORIZATION OF EXECUTION AND DELIVERY OF AMENDMENT NO. 1 TO MORTGAGE AND SECURITY AGREEMENT. The amendment of the Mortgage, pursuant to an Amendment No. 1 to Mortgage and Security Agreement substantially in the form attached hereto as Exhibit B (the "Mortgage Amendment"), with such changes, corrections, insertions and deletions as may be approved by the Chairman of the Authority, such approval to be evidenced conclusively by his execution thereof, are hereby approved and authorized; the Authority hereby authorizes and directs the Chairman of the Authority to date and execute the Mortgage Amendment, and to deliver the Mortgage Amendment to the Trustee and the Borrower; and all of the provisions of the Mortgage Amendment, when executed and delivered by the Authority as authorized herein and by the Borrower and the Trustee, shall be deemed to be a part of this Resolution as fully and to the same extent as if incorporated verbatim herein.

SECTION 3. AUTHORIZATION OF EXECUTION OF OTHER CERTIFICATES AND OTHER INSTRUMENTS. The Chairman and the Secretary of the Authority are hereby authorized and directed, either alone or jointly, to execute and deliver certificates of the Authority certifying such facts as Authority's Counsel or Bond Counsel shall require in connection with consummation of the transactions described above, and to execute and deliver such other instruments, as shall be necessary or desirable to consummate the transactions hereby authorized.

SECTION 4. NO PERSONAL LIABILITY. No representation, statement, covenant, warranty, stipulation, obligation or agreement herein contained, or contained in the Loan Agreement Amendment or Mortgage Amendment, or any certificate or other instrument to be executed on behalf of the Authority in connection with the transactions described above, shall be deemed to be a representation, statement, covenant, warranty, stipulation, obligation

or agreement of any member, officer, employee or agent of the Authority in his or her individual capacity, and none of the foregoing persons nor any officer of the Authority executing the Loan Agreement Amendment or the Mortgage Amendment, or any certificate or other instrument to be executed in connection with the transactions described above, shall be liable personally thereon or be subject to any personal liability or accountability by reason of the execution or delivery thereof.

SECTION 5. PREREQUISITES PERFORMED. All acts, conditions and things relating to the passage of this Resolution, to the execution and delivery of the Loan Agreement Amendment and the Mortgage Amendment required by the Constitution or other laws of the State, to happen, exist and be performed precedent to the passage hereof, and precedent to the execution and delivery of the Loan Agreement Amendment and the Mortgage Amendment, have either happened, exist and have been performed as so required or will have happened, will exist and will have been performed prior to such execution and delivery.

SECTION 6. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions, and shall in no way affect the validity of any of the other provisions hereof.

SECTION 7. REPEALING CLAUSE. All resolutions or parts thereof in conflict with the provisions herein contained are, to the extent of such conflict, hereby superseded and repealed.

SECTION 8. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this \_\_\_\_ day of July, 2000.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Secretary

**EXHIBIT A**

**Amendment No. 1 to Loan and Security Agreement**

**AMENDMENT NO. 1**

**to**

**LOAN AND SECURITY AGREEMENT  
DATED AS OF MARCH 1, 1999**

**between**

**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**

**and**

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.**

**assigned to**

**SUNTRUST BANK  
(formerly SunTrust Bank, Central Florida, National Association), as trustee**

**Relating to:**

**Sumter County Industrial Development Authority  
Health Care Facility Revenue Bonds  
(WeCare Nursing Center Project), Series 1999**

**Dated as of July 1, 2000**

**AMENDMENT NO. 1 TO  
LOAN AND SECURITY AGREEMENT**

This AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of July 1, 2000, among the SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a public body corporate and politic duly created and validly existing under the laws of the State of Florida (the "Issuer"), THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC., a Texas not for profit corporation duly organized and validly existing under the laws of the State of Texas (the "Borrower"), and SUNTRUST BANK (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee").

A. Reference is made to the Loan and Security Agreement dated as of March 1, 1999, between the Borrower and the Issuer (the "Loan Agreement"), pursuant to which the Issuer loaned the proceeds of its Health Care Facility Revenue Bonds (WeCare Nursing Center Project), Series 1999A and Series 1999B (the "Bonds") to the Borrower for the purposes of, among other things, financing the costs of acquiring, equipping and renovating certain health care facilities owned and operated by the Borrower.

B. The Issuer assigned its right, title and interest in and to the Loan Agreement (other than Unassigned Rights) to the Trustee to secure the Bonds.

C. The Borrower now wishes to amend certain provisions of the Loan Agreement as they relate to professional liability insurance required to be maintained by the Borrower.

D. A majority in aggregate principal amount of the Outstanding Bonds have approved and consented to this Amendment and pursuant to such approval and consent, Section 8.8 of the Indenture permits the Trustee to execute and deliver this Amendment.

NOW THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, the parties hereto agree as follows:

1. Use of Defined Terms. Capitalized terms used in this Amendment shall have the meanings set forth in the Master List of Definitions attached to the Loan Agreement as Exhibit A.

2. Amendment to Definition of "Required Professional Liability Insurance Coverage". The definition of "Required Professional Liability Insurance Coverage" contained in the Master List of Definitions attached to the Loan Agreement as Exhibit A is hereby amended in its entirety to read as follows:

**"Required Professional Liability Insurance Coverage"** means professional liability (or similar) insurance insuring the Issuer, the

Trustee and the Borrower against the liability for death, injury, loss or damage occurring in the examination, diagnosis, treatment or care of any person, which insurance shall be in such amounts as, in the Borrower's judgment, are adequate to protect the Borrower, but only to the extent that obtaining such insurance is financially feasible for the Borrower and the Facility and will permit the Borrower to otherwise perform and maintain its obligations and covenants under the Loan Agreement, the Notes and the Mortgage.

3. Amendment to Section 5.20 – Professional Liability Insurance. Section 5.20 of the Loan Agreement is hereby amended in its entirety to read as follows:

Section 5.20 Professional Liability Insurance. The Borrower shall maintain at its expense the Required Professional Liability Insurance Coverage. An Insurance Consultant shall review all insurance coverage provided for in this Section 5.20 no less than annually. If the Insurance Consultant makes recommendations for the increase of the Required Professional Liability Insurance Coverage then in effect, the Borrower shall comply with the recommendations of the Insurance Consultant, unless the Borrower determines in good faith that such recommendations, in whole or in part, are not in the best interests of the Borrower and the Facility when taking into account the impact that implementing such recommendations will have on the financial feasibility of the Borrower and the Facility and the Borrower's ability to perform and maintain its obligations and covenants under this Loan Agreement, the Notes and the Mortgage. All insurance shall be obtained and maintained either by means of policies with generally recognized, responsible insurance companies or in conjunction with other companies through an insurance trust or other arrangements satisfactory to an Insurance Consultant acceptable to the Trustee, and all such companies are to be qualified to do business in the State. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than thirty (30) days' advance written notice to the Trustee or such shorter period of notice as shall be satisfactory to the Trustee. The Borrower shall deposit with the Trustee certificates or other evidence, satisfactory to the Trustee, that (i) the provisions of this Section 5.20 have been complied with, describing the Required Professional Liability Insurance Coverage then in effect and (ii) all premiums on Required Professional Liability Insurance Coverage have been paid in full. If there is a change in the amount of Required Professional Liability Insurance Coverage maintained by the Borrower, the Borrower shall furnish the Trustee with notice and a description of any such change. The Borrower shall file with the Trustee a copy of any claim in excess of \$100,000 it may make under the Required Professional Liability Insurance Coverage.

4. Effective Date. This Amendment shall be effective as of March 15, 2000.

5. No Other Modifications to Loan Agreement. Except as hereby expressly modified, the Loan Agreement shall be unchanged and shall remain in full force and effect, and the Borrower ratifies and reaffirms all of its obligations thereunder.

6. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Issuer, the Borrower and the Trustee have caused this Amendment to be duly executed in their respective names, all as of the date hereinbefore written.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

THE ALLIANCE FOUNDATION  
FOR HOUSING AND HEALTH  
CARE, INC.

By: \_\_\_\_\_  
Robert P. Hostler, President

SUNTRUST BANK (formerly  
SunTrust Bank, Central Florida,  
National Association), as trustee

By: \_\_\_\_\_  
Patricia Smith, Assistant Vice  
President



**EXHIBIT B**

**Amendment No. 1 to Mortgage and Security Agreement**

This instrument was prepared by  
and should be returned to:

Chauncey W. Lever, Jr.  
Foley & Lardner  
200 Laura Street  
Jacksonville, FL 32202

**AMENDMENT NO. 1**

to

**MORTGAGE AND SECURITY AGREEMENT  
DATED AS OF MARCH 1, 1999**

from

**THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC.**

to

**SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**

assigned to

**SUNTRUST BANK**  
(formerly SunTrust Bank, Central Florida, National Association), as trustee

**Relating to:**

**Sumter County Industrial Development Authority  
Health Care Facility Revenue Bonds  
(WeCare Nursing Center Project), Series 1999**

Dated as of July 1, 2000

THIS INSTRUMENT AND THE MORTGAGOR'S OBLIGATIONS SECURED  
HEREBY ARE GIVEN TO SECURE THE BONDS DESCRIBED ABOVE WHICH  
HAVE BEEN ISSUED PURSUANT TO CHAPTER 159, PARTS II AND III,  
FLORIDA STATUTES, AS AMENDED, AND THIS INSTRUMENT AND THE  
MORTGAGOR'S OBLIGATIONS ARE EXEMPT FROM FLORIDA  
DOCUMENTARY STAMP TAX AND FLORIDA INTANGIBLE PROPERTY TAX  
PURSUANT TO SECTION 159.31, FLORIDA STATUTES, AS AMENDED.

**AMENDMENT NO. 1 TO  
MORTGAGE AND SECURITY AGREEMENT**

This AMENDMENT NO. 1 TO MORTGAGE AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of July 1, 2000, among the SUMTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a public body corporate and politic duly created and validly existing under the laws of the State of Florida (the "Issuer"), THE ALLIANCE FOUNDATION FOR HOUSING AND HEALTH CARE, INC., a Texas not for profit corporation duly organized and validly existing under the laws of the State of Texas (the "Mortgagor"), and SUNTRUST BANK (formerly SunTrust Bank, Central Florida, National Association), as trustee (the "Trustee").

A. Reference is made to the Mortgage and Security Agreement dated as of March 1, 1999, from the Mortgagor to the Issuer (the "Mortgage"), which Mortgage secured the loan to the Mortgagor of the proceeds of the Issuer's Health Care Facility Revenue Bonds (WeCare Nursing Center Project), Series 1999A and Series 1999B (the "Bonds").

B. The Issuer assigned its right, title and interest in and to the Mortgage (except its right, title and interest in the Mortgage to the extent the Mortgage secures the Mortgagor's obligation with respect to Unassigned Rights) to the Trustee to secure the Bonds.

C. The Mortgagor now wishes to amend certain provisions of the Mortgage as they relate to public liability insurance required to be maintained by the Mortgagor.

D. A majority in aggregate principal amount of the Outstanding Bonds have approved and consented to this Amendment and pursuant to such approval and consent, Section 8.8 of the Indenture permits the Trustee to execute and deliver this Amendment.

NOW THEREFORE, in consideration of the premises and mutual agreements hereinafter contained, the parties hereto agree as follows:

1. Use of Defined Terms. Capitalized terms used in this Amendment shall have the meanings set forth in the Mortgage.

2. Amendment to Definition of "Required Public Liability Insurance Coverage". The definition of "Required Public Liability Insurance Coverage" contained in the Mortgage is hereby amended in its entirety to read as follows:

**"Required Public Liability Insurance Coverage"** means commercial general liability insurance insuring against death or bodily injury in connection with the Site or Project Facilities and other property and operations of the Mortgagor, which insurance shall be in such amounts as, in the Mortgagor's judgment, are adequate to protect the

Mortgagor, its property and its operations, but only to the extent that obtaining such insurance is financially feasible for the Mortgagor and the Facility and will permit the Mortgagor to otherwise perform and maintain its obligations and covenants under the Loan Agreement, the Notes and the Mortgage.

3. Amendments to Section 3.3 – Insurance. The following portions of Section 3.3 of the Mortgage are hereby amended.

(a) The first paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

Section 3.3 Insurance. The Mortgagor shall keep the Mortgaged Property continually insured with Required Property Insurance Coverage. Subject to the fifth paragraph of this Section 3.3 with respect to Required Public Liability Insurance Coverage, an Insurance Consultant shall review all insurance coverage provided for in this Section 3.3 no less than annually and the Mortgagor covenants and agrees to comply with the recommendations of such Insurance Consultant. For purposes of establishing the amount of the Required Property Insurance Coverage, “replacement cost” of the Project Facilities shall be determined not less frequently than at three year intervals by an Engineer or competent appraiser, appraisal company or one of the insurers, in each instance, acceptable to the Trustee.

(b) The fifth paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

The Mortgagor shall keep and maintain Required Public Liability Insurance Coverage with reference to the Property. An Insurance Consultant shall review the Required Public Liability Insurance Coverage no less than annually. The Insurance Consultant may determine that the Required Public Liability Insurance Coverage shall be increased to such larger amounts as it determines to be appropriate in light of inflationary increases, the operations conducted by the Mortgagor and the insurance coverage carried by other entities conducting similar operations. If the Insurance Consultant makes recommendations for the increase of the Required Public Liability Insurance Coverage then in effect, the Mortgagor shall comply with the recommendations of the Insurance Consultant, unless the Mortgagor determines in good faith that such recommendations, in whole or in part, are not in the best interests of the Mortgagor and the Facility when taking into account the impact that implementing such recommendations will have on the financial feasibility of the Mortgagor and the Facility and the Mortgagor’s ability to perform and maintain its obligations and covenants under this Loan Agreement, the Notes and the Mortgage.

(c) The sixth paragraph of Section 3.3 of the Mortgage is hereby amended in its entirety to read as follows:

All insurance shall be obtained and maintained either by means of policies with generally recognized, responsible insurance companies or in conjunction with other companies through an insurance trust or other arrangements satisfactory to an Insurance Consultant acceptable to the Trustee, and all such companies are to be qualified to do business in the State. The insurance to be provided may be by blanket policies. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than thirty (30) days' advance written notice to the Trustee or such shorter period of notice as shall be satisfactory to the Trustee. The Mortgagor shall deposit with the Trustee certificates or other evidence, satisfactory to the Trustee, that (i) the insurance required by the first four paragraphs of this Section 3.3 has been obtained and is in full force and effect, (ii) the provisions of this Section 3.3 with respect to Required Public Liability Insurance Coverage have been complied with, describing the Required Public Liability Insurance Coverage then in effect and (iii) all premiums on insurance required by this Section 3.3 have been paid in full. Prior to the expiration of any insurance required by the first four paragraphs of this Section 3.3, the Mortgagor shall furnish the Trustee with evidence satisfactory to the Trustee that such insurance has been renewed or replaced and that all premiums thereon have been paid in full and all insurance policies required hereby are in full force and effect. If there is a change in the amount of Required Public Liability Insurance Coverage maintained by the Mortgagor, the Mortgagor shall furnish the Trustee with notice and a description of any such change. The Mortgagor shall file with the Trustee a copy of any claim in excess of \$100,000 it may make under the Required Property Insurance Coverage.

4. Effective Date. This Amendment shall be effective as of March 15, 2000.

5. Recordation. The Mortgagor, at its expense, shall cause this Amendment to be timely recorded, registered and filed, in such manner and in such places as may be required, in order to establish, preserve and protect the lien of the Mortgage, as amended.

6. No Other Modifications to Mortgage. Except as hereby expressly modified, the Mortgage shall be unchanged and shall remain in full force and effect, and the Mortgagor ratifies and reaffirms all of its obligations thereunder.

7. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto on separate counterparts, each of which when so

executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Issuer, the Mortgagor and the Trustee have caused this Amendment to be duly executed in their respective names, all as of the date hereinbefore written.

SUMTER COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY

By: \_\_\_\_\_  
Chairman

THE ALLIANCE FOUNDATION  
FOR HOUSING AND HEALTH  
CARE, INC.

By: \_\_\_\_\_  
Robert P. Hostler, President

SUNTRUST BANK (formerly  
SunTrust Bank, Central Florida,  
National Association), as trustee

By: \_\_\_\_\_  
Patricia Smith, Assistant Vice  
President


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## Employee Information

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Employee Name and Title

SMITH, PATTY

CORPORATE TRUST OFFICER

Extension Network Direct Dial

407-237-5088 STNET 220

SMITH, ADELLE G

SMITH, AMANDA

SMITH, AMANDA L

SMITH, AMI LEE

SMITH, ANDREA

SMITH, ANGEL A

SMITH, ANGIE

Voice Mail Secretary Cost Center

Department

STISTIO

Mail Code Location

FL-ORLANDO-4303

SUNTRUST BA

Mail Address

225 EAST ROBINSON STREET SUITE 250 C

Location Address

225 EAST ROBINSON STREET SUITE 250 C

E-Mail Address

patty.smith@suntrust.com

**SUNTRUST**

*Patty Smith*  
*407-237-5088*

*Leslie King*  
*237-6984*

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## Employee Information

Found 68 - Try Again

Voice Mail Secretary Cost Center

Employee Name and Title

KING, LESLIE

Department

STISTIO

CORPORATE TRUST OFFICER

Extension Network Direct Dial

Mail Code Location

FL-ORLANDO-4028

SUNTRUST BA

407-237-6984 STNET 220

Mail Address

225 E. ROBINSON ST, SUITE 250 ORLANI

Location Address

225 E. ROBINSON ST, SUITE 250 ORLANI

E-Mail Address

leslie.king@suntrust.com

KING, (ALLEN) LARRY A

KING, ALAN

KING, BEVERLY

KING, BONNIE

KING, CAMI

KING, CARLA

KING, CARRIE H

32801